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GOVERNMENT AND ADMINISTRATION

Criminal Justice

A wide-ranging review of the criminal justice system in England and Wales is contained in a working paper[1] published on 9 May. The paper outlines the action being taken in pursuit of the Government's general strategy, the three main elements of which are the maintenance and encouragement of public confidence in the system; the search for greater efficiency and effectiveness; and the retention of the proper balance between the rights of the citizen and the needs of the community. The review describes how this strategy is being developed through crime prevention, by various initiatives affecting the police, the courts, the probation service and the prison service, and by giving greater emphasis to the needs of the victims of crime.

Public Confidence

It is essential to maintain and encourage public confidence in the criminal justice system, says the paper. The public must have confidence that the rule of law will be maintained, and that the police are operating effectively and properly. It is a vital aspect of the strategy to build up trust between the police and the community at large.

Sentences must reflect the public's view that crimes of violence are evil and deserve punishment. The most serious offenders must expect to pay dearly for their crimes, but wherever possible minor offenders should be kept out of prison, or serve very short sentences. It is intended that those who murder police officers will normally serve at least 20 years in custody, and even longer if the gravity of the offence requires it; that the same minimum and the same approach will apply to those who murder prison officers, those who commit terrorist murders, those who commit sexual or sadistic murders of children, and those who use firearms to kill in the course of a robbery; and that those who murder other vulnerable people such as night watchmen, security guards, Post Office staff and public transport personnel can expect to serve very long periods in custody. No one serving a sentence of life imprisonment will be released where the Home Secretary judges that there will be a risk to the public. Life imprisonment is already available for offences of possessing a firearm with intent to endanger life or with intent to resist arrest. Legislation will be introduced to increase from 14 years to life imprisonment the maximum sentence for possessing a firearm with intent to commit or while committing an indictable offence. There will also be legislation to empower the Attorney-General to refer to the Court of Appeal sentences which seem to him to be excessively lenient. It has been decided that prisoners serving sentences of over five years for offences of violence or drug-trafficking will be granted parole only when release under supervision for a few months before the end of a sentence is likely to reduce the long-term risk to the public, or in circumstances which are genuinely exceptional (see p 34).

A programme of action designed to reaffirm the position of the police as a respected part of the community, responsible to it, dependent on it and receiving its active support, is now under way. It is a four-pronged approach involving action on police consultation with the local community; recruitment; training; and policing methods. Guidelines were issued in 1982 to all police authorities on how to set up such consultation arrangements (see p 256, 1982) and almost all police authorities have now established formal consultation arrangements of some kind. An important parallel initiative is the development, at present on a pilot basis, of lay visiting to police stations (see p 286, 1983). During the past ten years there has been an increase in the number of police officers who are members of ethnic communities and steps are being taken to increase their number. A circular has been issued to all chief officers giving practical guidance on community and race relations training. Part of the Home Secretary's strategy is to encourage increases in the number of police officers on patrols and in the Metropolitan Police area in London over 750 uniformed constables have been added to divisional strengths to improve ground cover (see p 105), while similar moves are being made in other forces. All police forces with substantial ethnic minority communities living in their area have introduced systems for monitoring the incidence of racial attacks (see p 380, 1981). The Government proposes to set up a new Police Complaints Authority which, in serious cases, will have responsibility for the supervision of investigating complaints against the police (see pp 390-1, 1983).

[1] *Criminal Justice: A Working Paper*. Home Office, HMSO. Available on application to the Home Office, Room 1001, 50 Queen Anne's Gate, London SW1H 9AT. ISBN 086252 148 3.

Crime Prevention

Crime prevention represents one of the most cost effective and efficient ways of achieving greater public confidence in the criminal justice system, says the paper. The Home Secretary has established a Crime Prevention unit within the Home Office (see pp 285-6, 1983), and the Home Office has taken the lead in encouraging local involvement in preventive action. There are now many innovative crime prevention projects throughout the country. A total of 19 police forces is running neighbourhood watch schemes and a further ten forces plan to introduce them. A number of specific initiatives in dealing with young offenders are being taken in conjunction with the Department of Health and Social Security, the Department of Education and Science and the Department of the Environment. Cautioning has an important role to play in keeping young offenders out of the criminal justice system and cautioning practices for both adults and juveniles are being reviewed.

Police Effectiveness

Police manpower has been increased by 8·6 per cent since May 1979 and there are now about 121,000 police officers in England and Wales. In addition there are over 34,000 civilians employed by police forces.

Efficiency and effectiveness have been improved without increasing resources. A much larger proportion of crime investigations is now being undertaken by uniformed officers, so that detectives can concentrate on crimes which require specialist skills. Resources are increasingly being targeted on priority areas, and on crimes which cause most public concern. More use is being made of civilians and special constables (officers who assist on a part-time basis). The number of the latter has grown for two years running, the first increases for over 30 years.

Major incident-room systems are being established, records are being computerised, senior investigation officers with responsibilities in neighbouring forces are being appointed in serious cases, and the training of officers who may be involved in investigating serious crimes is being improved. Current initiatives to secure better information and analysis include management information systems, to relate manpower deployment to patterns of crime and other kinds of incident; the use of 'command and control' systems to provide immediate information about available resources when an incident occurs; and the introduction of crime information systems to provide, for example, an instant means of matching witness descriptions to knowledge about known criminals.

Important improvements have been made, and more are planned, in the training of all police officers in both management and operational skills: new recruits starting their probationer training in January 1984 will receive a longer period of training at the District Police Training Centre and will spend ten weeks with an experienced tutor constable; the whole probationary period will be regarded as a two-year apprenticeship, the emphasis being on the job to be done, supported and reinforced by periods of monitoring and assessment; the effectiveness of the new probationer training programme is being assessed; and the 'Special Course' for young officers of high potential will be changed from 1985 in order to provide officers with a better balance of training and practical experience.

The working paper goes on to discuss the main provisions of the Police and Criminal Evidence Bill now before Parliament (see pp 400-4, 1983). Among them are new powers to stop and search persons, to search for evidence, to arrest, and to detain people in police custody, while certain powers are restricted or clarified. The Police Bill strategy, of balancing powers and safeguards – for example, the right to legal advice and the tape-recording of interviews with suspects – reiterates the Home Secretary's objectives of encouraging effective policing with the consent and co-operation of society at large.

Court Procedures

There are to be changes to improve efficiency in court procedures. A major recommendation of the Royal Commission on Criminal Procedure was the establishment of a prosecution service independent of the police. The Government has accepted this recommendation, and outlined details of the proposed service in a White Paper published in October 1983 (see pp 356-7, 1983). Legislation designed to improve the consistency, accountability, efficiency and cost effectiveness of the prosecution process will be introduced as soon as possible. Suggestions have been made by the Home Office to assist the magistrates' courts to make better use of fines and to improve their fine enforcement procedures. Measures to reduce delays and waiting time are also to be recommended. The training needs of court staff are currently being examined.

Diversion from Custody

There are plans for diverting less serious offenders from custody, the two main groups being fine defaulters and drunkenness offenders. Fine defaulters constitute about 3 per cent of the sentenced prison population, but about a quarter of all sentenced receptions into prison. There is scope for improved enforcement of fines by seeing that the fine is set at a reasonable level for the offender's means, by prompt and sustained follow-up action if the fine is not paid, and by the use of a community service order as an alternative to imprisonment for default. The Government is considering, for future legislation, a provision which would enable a court to substitute a community service order for an unpaid fine. Some 2,500 drunkenness offenders are committed each year in default of payment of fines. An experimental 'wet shelter' is now in operation, while the Metropolitan, Dorset and Merseyside police have introduced schemes for cautioning drunks so that only the most persistent offenders need to be brought before the courts.

As well as seeking to divert offenders from custody at source the Home Secretary has announced his intention to reduce from one year to six months the minimum qualifying period of

custody before a prisoner can be considered for parole (see p 34). The change will apply to prisoners sentenced after 1 January 1984. The Government is also considering the possibility of a new penalty of day or weekend imprisonment. This would be intended for those offenders who the courts considered must suffer some loss of liberty, but for whom full custody with its potential consequences for the offender's family and livelihood might not be necessary. The Home Secretary is anxious that prisoners whose mental condition makes it appropriate for them to be detained in hospital should be in hospital rather than in prison. A further 250 hospital places are under construction.

Since its introduction the number of community service orders made has risen steadily – from 15,720 in 1979 to 30,830 in 1982. Research suggests that in about half of all cases, offenders would have otherwise received custodial sentences. The Government has substantially increased its expenditure on developing community alternatives to custody for juvenile offenders, with the aim of reducing recidivism among young people.

The Probation Service

The probation service has grown in size since June 1979 from 5,200 probation officers and 3,600 ancillary and other staff to nearly 6,000 probation officers and 5,000 ancillary and other staff in 1983. Unlike the other criminal justice agencies it has also seen a very considerable extension of its functions and activities. Formerly its responsibilities were largely confined to the supervision of probation orders, the preparation of social inquiry and civil work arising from matrimonial disputes and the custody of the children. The service has now become responsible for social work in prisons and the after-care of prisoners, for the supervision of prisoners released on parole, for running hostels and day centres, for administering community service orders, and often for providing the facilities for intermediate treatment. In addition, the service is working with other agencies and voluntary organisations in a wide range of schemes involving the local community, usually with the emphasis on providing constructive activity for offenders or young people at risk, but often including help with victim support schemes and crime prevention programmes.

A statement of national objectives and priorities relating to the probation service has been issued by the Home Office, the first being to ensure that wherever possible offenders can be dealt with by non-custodial measures and that standards of supervision are set and maintained.

The Criminal Justice Act 1982 strengthened the powers of the courts to include requirements in probation and supervision orders. Courts may now include requirements that probationers attend places and participate in activities specified in the orders for up to 60 days. Courts may also require probationers to attend day centres for up to 60 days. There are comparable provisions for supervision orders but with a maximum of 90 days. These provisions enable the probation service to undertake the supervision of a greater number of persistent and serious offenders who would otherwise face custodial sentences. By making use of the facilities such as day centres and activity programmes, and including attendance and participation requirements in probation and supervision orders, the courts are able to satisfy themselves that such orders will make real demands on offenders.

Prison Population and Prison-building Programme

Both an acceleration and an extension of the major prison-building programme are already in progress. These measures will put an end to prison overcrowding by the end of the decade. In 1983, the total 'certified normal accommodation' in the system as a whole was about 39,000 places; the average number of inmates, convicted or unconvicted, was about 43,500. Overcrowding is most acute in the local prisons and remand centres. On the basis of past trends and taking account of existing policies and current sentencing practice, the average total prison population in 1992 is projected to be around 49,000. In November 1983 the Home Secretary announced a five-point action plan to end prison overcrowding before the 1990s. The five points are: to continue with ten new prisons previously announced which will provide 4,800 places; to add four more new prison projects to the programme, providing 1,800 places; to provide additional accommodation amounting to 4,000 places at existing establishments; to accelerate projects so as to bring additional places into use as early as possible; and to provide the necessary staff for the new buildings. Major capital work is in progress or planned at 90 of the 120 existing Prison Department establishments, and many of these schemes involve major refurbishment and modernisation of living accommodation. The total cost of the new prison programme will be some £250 million at current prices over the next seven years.

In November 1983, the Home Secretary announced a major increase in the staffing of the prison staff.

The Government is firmly committed to preserving and where possible improving the quality of prison regimes in which both work and education have important parts to play.

A review is being conducted of ways to improve the control of long-term prisoners, especially in the dispersal prisons where the most dangerous prisoners are held.

Victims

An important feature of the Government's crime strategy is to secure further improvements in the facilities provided for, and available to, the victims of crime. Some improvements refer to the victim's material needs, others to offended feelings. There are five main areas of action: relations with the police; compensation orders by criminal courts; the Criminal Injuries Compensation Scheme; victims support schemes; and projects involving reparation and mediation between the victim and the offender. The police play an essential role in support of victims. When an offender is detected they also have a part to play in ensuring the

victim is kept informed as to what is happening in the prosecution process. Discussions are taking place with the Association of Chief Police Officers to ensure that this kind of support for victims by the police operates effectively. Since 1973 the criminal courts have had a general power to order convicted offenders to pay compensation. Nearly 13,000 orders were made in 1982, 20 per cent of offenders sentenced for indictable offences being ordered to pay compensation.

The Criminal Injuries Compensation Scheme has been in operation for nearly 20 years and over a quarter of a million applications have been dealt with and awards made totalling over £180 million. The Government proposes to introduce legislation to place the Scheme on a statutory basis. Schemes to support the victims of crime have expanded rapidly in the last four years. There are already 170 in operation throughout the country, affiliated to the National Association of Victim Support Schemes. The Home Secretary has publicly expressed his interest in reparation and mediation projects (see pp 145-6).

Changes in the Criminal Law

The working paper refers to the main changes in the criminal law which are being made or considered. These are in connection with criminal evidence, video recordings, child abduction, repatriation of prisoners, trespass, proceeds of criminal offences, and public order.

With regard to criminal evidence, the Police and Criminal Evidence Bill (see p 196) clarifies the rule on the admissibility of computer evidence and the definition of circumstances which would render confession evidence inadmissible; provides for rules to be made requiring both defence and prosecution to give advance notification of expert evidence; and extends the admissibility of types of documentary record as 'hearsay' evidence to public, as well as private, organisations.

The Government is giving full support and assistance to a private member's Bill which, if enacted, will impose controls on the commercial supply of video recordings.

Under the existing law a divorced or separated parent can take his or her child abroad without the consent of the other parent and, for all practical purposes, deprive the other parent of access; a private member's Bill has been introduced with government support to remedy this anomaly and to strengthen statute law on the kidnapping and abduction of children generally.

The Government has introduced legislation in the House of Lords which will enable a person from overseas convicted of a criminal offence in this country to be transferred to his or her home country to serve the sentence.

The Home Secretary has announced that, following a review of the law on trespass, proposals will be prepared for legislation which would, if enacted, make it a criminal offence in certain circumstances to enter residential premises as a trespasser. (A private member's Bill providing for this has already been introduced into the House of Lords.)

An independent committee is considering the feasibility of giving statutory powers to the courts to confiscate from offenders the proceeds of their crimes, and the Government has announced that it hopes to introduce legislation during the life of the present Parliament to provide for the confiscation of the proceeds of crime.

The Government is at present reviewing the state of the law on public order and will announce its conclusions within the next year or two.

EXTERNAL AFFAIRS AND DEFENCE

Defence

In the annual defence White Paper published in May[1] the Government stresses the need to give priority to the defence of the North Atlantic Treaty Organisation (NATO) area through the provision of British independent strategic and theatre nuclear forces, a major land and air contribution on the European mainland, and the deployment of substantial naval forces in the Eastern Atlantic and the Channel. In the belief that the collective security enjoyed by Britain as a member of the Alliance is the only realistic way of providing for its defence, the Government remains committed to playing its full part in ensuring that the Alliance continues to be as effective a guarantor of peace and freedom in the decades ahead as it has been in the years since 1949.

The Soviet Challenge

The White Paper says that the policies of the Soviet Union and the military capabilities of the Warsaw Pact comprise the main threat to NATO. Over the past year the Soviet leadership had demonstrated its familiar consistency of purpose by consolidating its gains in Afghanistan where, despite the costs of occupation and the courage of the Afghan resistance, it showed no readiness to withdraw. It had also continued its pattern of exploiting regional instabilities in Central America, Africa and the Middle East. The shooting-down of a Republic of Korea airliner by a Soviet aircraft, with the loss of 269 lives, provided a striking example of Soviet attitudes (see pp 328-9, 1983).

At the same time, the Soviet Union, which already enjoyed substantial superiority over NATO in most categories of armaments, had continued to improve its military capability over a wide range of forces. At the strategic nuclear level the Soviet Union was testing a new generation of intercontinental ballistic missiles and was developing long-range cruise missiles which could be launched from air, ground and sea platforms. At sea it had the largest fleet of nuclear-powered submarines in the world, having built 100 such vessels since 1970, and a growing surface fleet capable of world-wide operations. On the central front in Europe, the general Soviet advantage in both men and equipment was particularly marked in tanks (2·3 to 1 in its favour), artillery (2·7 to 1) and combat aircraft (2·1 to 1), and this would make it much easier for the Soviet Union to achieve the local superiority required by an aggressor. Soviet forces were also experimenting with new organisations and tactics intended to penetrate rapidly into NATO's rear areas, thereby underlining the offensive nature of the Warsaw Pact. Moreover, with the introduction of further SS20 missiles and the deployment of SS21, SS22 and SS23 missiles designed to replace older systems, the disparity between the Warsaw Pact and NATO in intermediate-range nuclear weapons was currently five to one.

On NATO's response the White Paper says: 'Wherever there are any grounds for belief that the Soviet Union may genuinely be interested in the reduction of tension or armaments, no responsible Western government can do other than wholeheartedly pursue the chance of establishing common ground. NATO has for many years maintained as a fundamental part of its policy that defence and deterrence must be accompanied by an unremitting effort to develop a constructive relationship and improve understanding between East and West .... For our part, we have made it clear that the Government are determined to continue to work for real progress in arms control and a better understanding with the Soviet Union and the countries of Eastern Europe. But, equally, faced with the objective fact of growing Soviet military power, the West cannot responsibly fail to take the precaution of ensuring that its own defences are adequate to meet the threat.'

Arms Control

Reviewing the Alliance's 1979 decision to modernise its intermediate-range nuclear forces (INF), the White Paper says that without such modernisation NATO's capability would have declined steadily in effectiveness and led to a dangerous gap in the range of forces necessary to deter aggression at every possible level. The Soviet Union had made major improvements by introducing large numbers of the SS20 missile which, compared with the earlier SS4 and SS5 missiles, had a longer range and greater accuracy, were mobile, and had three independently targeted warheads instead of one. Against this background NATO had decided to deploy 464 ground-

[1] *Statement on the Defence Estimates 1984*. Vol 1. Cmnd 9227-I. HMSO, £4. ISBN 0 10 192270 1. Vol 2. (Defence Statistics.) Cmnd 9227-II. HMSO, £4·50. ISBN 0 10 192271 X.

launched cruise missiles and 108 Pershing II missiles. At the same time the Alliance had made clear its willingness to agree to limits on land-based missiles of this type and had stated that none would be deployed at all if the Soviet Union removed its SS20 missiles (the 'zero' option). In response, however, the Soviet Union had sought to do everything possible to undermine Alliance cohesion and to build up its SS20 force from less than 130 launchers in 1979 (when it had claimed equality already existed) to about 380 at the end of 1983, about two-thirds of which were targeted on Europe.

In March 1983, during negotiations with the Soviet Union, the United States, after intensive consultation within the Alliance, put forward an interim proposal for equal limits on missile warheads and in September expressed willingness to deploy fewer INF missile warheads in Europe than the Soviet Union had world-wide, to accept an agreement involving proportionate reductions in Pershing II and cruise missiles, and to negotiate limits on nuclear capable aircraft. The Soviet Union's position, however, had remained fundamentally inflexible, its underlying aim being to retain its substantial monopoly while denying the West the right to deploy any new range of similar weapons. The Soviet position had also been founded on a misleading presentation of the nuclear balance in Europe which had relied on the inclusion of British and French strategic forces to conceal the overwhelming Soviet superiority. The Soviet Union's threat to break off negotiations in the event of Western deployment was carried out when the first NATO missiles arrived in Europe in December 1983 (see pp 418-20, 1983).

Noting that public opinion in elections in Western Europe had rejected the case for unilateral nuclear disarmament and hoping that this demonstration of Alliance resolve would bring the Soviet leadership to realise the need to pay serious attention to arms control, the White Paper emphasises that NATO's INF deployment, to be spread over a five-year period, could be halted, modified or reversed under a negotiated agreement in Geneva. The Alliance had already underlined its commitment to the maintenance of security at lower levels of forces by its decision to reduce its nuclear warhead stockpile in Europe, and all Western offers remained on the negotiating table. 'A negotiated solution involving substantial reductions in intermediate-range nuclear weapons remains possible, given the necessary political will on both sides.'

On the strategic arms reduction talks (START) the White Paper says that some progress was made during 1983 to establish common ground and that the Soviet Union might now be ready to accept the United States premise that the first aim should be to reduce and not merely to limit strategic nuclear arsenals. With regard to conventional arms the Government reaffirmed its commitment to work for a successful conclusion of the Helsinki Conference on Confidence- and Security-building Measures and Disarmament in Europe (see pp 48-9); and to achieving fair and verifiable force reductions in central Europe in the Mutual and Balanced Force Reductions talks, where the crucial issue remained the disagreement over the size of existing Eastern forces and hence the size of the reductions needed to reach parity (see pp 205, 206). On chemical weapons the White Paper says that the aim of the NATO allies remains a comprehensive, world-wide and verifiable ban; Britain had made important contributions to the work of the Conference on Disarmament in Geneva, the most recent being a proposal on verification in the event of suspected non-compliance (see pp 79-80). Although the Soviet Union had recently accepted international on-site inspection of destruction of chemical weapon stockpiles, other important aspects of inspection remained to be resolved.

NATO's Defence Posture

The aim of the Alliance was to sustain an effective triad of conventional, theatre nuclear and strategic nuclear forces to ensure the continued credibility of the strategy of effective response. 'We believe that this strategy remains the basis of a credible deterrent and that there is no better alternative available.' Although close attention needed to be paid to the modernisation and improvement of conventional forces through sensible application of emerging technology, such developments did not in the foreseeable future present an alternative to NATO's existing strategy, nor a substitute for the role nuclear weapons played in deterrence.

Because of the growth in the Warsaw Pact's military capability, NATO members had in 1977 agreed to aim at real increases in defence expenditure in the region of 3 per cent a year and had put in hand a major programme of improvements to meet the defence needs of the 1980s. This covered defence capability, readiness, reinforcement and reserve mobilisation as well as theatre nuclear modernisation. In parallel with these efforts NATO had also been examining ways of making the most cost-effective use of resources and was now proceeding with work towards improving the co-ordination of defence planning, finding better performance indicators and identifying the possibilities for armaments co-operation, especially within the area of transatlantic arms sales. The Alliance was also determined to take full advantage of the free world's greater capacity for invention and innovation in the exploitation of emerging technology to improve conventional forces and thus reinforce deterrence at the non-nuclear level.

On NATO nuclear forces, the White Paper says that in the absence of an INF arms control agreement, the Alliance had proceeded to deploy cruise missiles in Britain (where deployment would be completed in 1988) and Italy and Pershing II missiles in the Federal Republic of Germany. At the same time, following a review, NATO's stockpile of short-range nuclear weapons was being reduced by 1,400 (on top of the 1,000 warheads withdrawn in 1979-80). In addition, each new Pershing II and cruise missile would be offset by a further one-for-one withdrawal from the present stockpile. These reductions, which would bring the stockpile in Europe to its lowest level in 20 years, represented a cut of one-third in the number of warheads deployed and of one-half in the

number of warheads for shorter-range nuclear systems. These significant reductions were being undertaken while equivalent Soviet systems were being steadily modernised and increased.

For Britain, the White Paper reaffirms, NATO remained the first claim on its defence resources, and the Government was determined to contribute to the Alliance's collective deterrence as effectively as possible. Since 1979 Britain's defence expenditure had increased by about 20 per cent in real terms, while some 95 per cent of the budget was devoted directly or indirectly to Alliance tasks. These were primarily the provision of independent strategic and theatre nuclear weapons committed to NATO; the direct defence of the British homeland; a major land and air contribution on the European mainland; and the deployment of substantial maritime forces in the Eastern Atlantic and the Channel.

Britain's Nuclear Forces

The White Paper confirms that Britain's strategic nuclear force of four Polaris submarines, with its Chevaline improved warheads, would remain effective until its replacement (at an estimated cost at 1983-84 prices of £8,700 million) by the Trident II system in the mid-1990s (see pp 63-4, 1982). Trident, like Polaris, would be entirely under British control, although committed to NATO, and would be based on a force of four ballistic missile submarines, each with 16 missile tubes. This was the smallest force capable of guaranteeing continuous patrol. Britain, whose current plans did not involve using the full capability of the system, had no intention of increasing the force's capability beyond the minimum size necessary to provide a credible and effective deterrent. The White Paper also states that should there be substantial negotiated reductions in the superpowers' strategic arsenals and if there were no significant changes in Soviet defensive capabilities, the Government would review its position and consider how best Britain could contribute to arms control in this area.

As part of the British contribution to the Alliance's theatre nuclear forces, the newly formed Tornado GR1 strike/attack squadrons, both in Britain and in the Federal Republic of Germany, were being equipped to carry nuclear weapons. In Britain, the deployment of Buccaneer aircraft capable of delivering nuclear weapons was continuing, as was the operation of nuclear-capable maritime helicopters and aircraft.

Britain's Conventional Forces

Defence of Britain

The effective defence of Britain, the White Paper states, was essential to NATO's strategy since it provided a forward base for NATO's Atlantic forces, a rear base for the Alliance's European forces and a main operating base for its Channel forces. In the event of a war in Europe it would also constitute a vital staging post through which reinforcements of men and equipment from North America would pass.

The defence of Britain and adjacent waters from air attack was the responsibility of RAF Strike Command whose forces were undergoing a comprehensive improvement programme (see also p 258, 1983). This included the introduction of the Nimrod airborne early warning aircraft which would provide Britain's contribution to NATO's airborne early warning force and of the Tornado F2 air defence aircraft; the delivery from the United States of F4J Phantoms to compensate for Phantoms deployed in the South Atlantic; the equipping of 72 Hawk training aircraft with Sidewinder missiles; the modernisation of the network of ground radars and command, control and communication systems comprising the United Kingdom Air Defence Ground Environment; and additional deployments of Rapier surface-to-air missiles.

On the ground, where the main threat was sabotage of vital military installations, Britain's 100,000 home defence forces were being strengthened through the expansion of the Territorial Army (to 86,000 by the end of the 1980s) and the development of other reserve forces, including the Home Service Force established in 1982 (see p 260, 1983). Similarly, to meet the threat to naval and merchant shipping around Britain, the Royal Navy's mine countermeasures forces were being modernised. Six new Hunt class minehunting/minesweeping ships were in service, five were on order and plans for others were being considered. The first four vessels of a new class of fleet minesweepers for the Royal Naval Reserve would enter service in 1984, and a further eight had been ordered. A new and cheaper design for a minehunter, built of glass-reinforced plastic like the Hunt class, and with the ability to deal with mines in deeper water, had been approved for entry into service towards the end of the 1980s.

Central Europe

Emphasising that the British Army of the Rhine (BAOR) was the visible demonstration of Britain's commitment to the forward defence of the heartland of the Alliance as well as being the forward defence of Britain itself, the White Paper reaffirms the commitment to maintain BAOR's strength of 55,000 in peacetime, consistent with its obligations under the 1948 Brussels Treaty as modified in 1954. Along with Belgian, Dutch and Federal German forces, BAOR was responsible for the defence of a vital 65 km front of the North German Plain, its role in war being to delay, absorb and ultimately repulse an enemy attack as close to the inner German border as possible. BAOR's reorganisation, begun in 1981 (see p 196, 1981) and now complete, would significantly enhance its combat effectiveness, in particular its ability to react to attack at little warning. Comprising four divisions, one infantry division located in Britain and three regular armoured divisions stationed in central Europe, BAOR would be reinforced on mobilisation by regular and reserve forces from Britain, bringing its strength up to 150,000 soldiers.

To keep abreast of Warsaw Pact improvements the Army's armour and anti-armour capabilities were being enhanced. Over the next few years four regiments would be equipped with the Challenger, the first British tank protected by Chobham armour. An improved armour-piercing shell for

both Challenger and Chieftain tanks had entered service in 1983, while new thermal imaging sights for both the tanks and for the Milan and Swingfire anti-tank guided weapon systems were being developed. All the Army's front-line Lynx helicopters were now fitted with TOW anti-tank missiles and production of the LAW 80 light anti-armour weapon for the infantry would begin in 1984. The infantry's new mechanised combat vehicle (MCV 80), together with specialised variants, would enter service in the late 1980s. Air defence improvements included the phased replacement of Blowpipe by the more accurate Javelin missile system. Communications, command and control systems were being modernised through the introduction in the next year of the Wavell computer-assisted tactical command and control information system and the Ptarmigan communications network, and of the Battlefield Artillery Target Engagement System (BATES) in the late 1980s.

The entry into service with RAF Germany of the Tornado GR1 strike/attack aircraft, the White Paper states, represented a major improvement in the RAF's ability to penetrate the improving Warsaw Pact air defences. Seven strike/attack and one reconnaissance squadrons would be deployed as the Jaguar squadrons were phased out, and these, together with two squadrons of air defence Phantoms and two of Harrier GR3s, would bring the number of fast jet squadrons with RAF Germany to 12. As well as the Sidewinder air-to-air missile, the Tornado would eventually carry the JP 233 airfield attack weapon and the ALARM air-launched anti-radiation missile, and be equipped with the advanced Sky Shadow electronic countermeasures system. In the late 1980s the arrival of the Harrier GR5 would strengthen the RAF's capability for offensive support. In time of tension RAF Germany would be reinforced by aircraft from Britain.

The Northern Region. Britain also made a significant contribution to the defence of NATO's northern flank which was crucial not only to the defence of central Europe but to that of Britain itself. In time of tension or war, Royal Marines from a joint British-Netherlands amphibious force would be available at an early stage to reinforce Norway, Denmark or the North Atlantic islands, while a mobile force for rapid deployment to the northern region was being maintained. Air support included Jaguar attack and reconnaissance aircraft assigned to the Alliance's northern command, while Harrier and Tornado aircraft assigned to the European command's strategic air reserve could also operate in the area.

Eastern Atlantic and Channel

Pointing out that a major objective for any aggressor would be the disruption of the Alliance's transatlantic and cross-Channel seaborne reinforcement and resupply, the White Paper emphasises that the safe passage of this seaborne traffic would be essential both to prevent the isolation of NATO's forces in Europe, and to sustain the confidence of the allies themselves. For these reasons, NATO maintained a substantial maritime presence in the Eastern Atlantic and the Channel, and Britain provided 70 per cent of the forces involved. Since Soviet submarines would be the greatest threat in these important areas, and the Soviet Navy was enhancing its submarine capability, particular emphasis in wartime would be given to anti-submarine warfare, in support both of the fleet and of reinforcement and resupply shipping.

More money in real terms was spent on new ships and weapons systems in 1982-83 than in any of the previous 20 years; and expenditure would continue to remain higher than the 1978-79 level even when spending on Trident reached its peak at the end of the decade. Thirty-seven warships were on order, including four nuclear-powered hunter-killer submarines to join the twelve already in service, the first of the new class of conventional diesel-electric submarine, seven of a planned nine Type-22 frigates, and the last three Type-42 destroyers. The design of the new Type-23 frigate, to conduct anti-submarine warfare in the North Atlantic and for general purpose duties world-wide, had been approved. In 1984 there would be 55 front-line destroyers and frigates with no ships in the standby squadron and in the longer term the aim would continue to be a force of 50 destroyers and frigates in the front line. With the acceptance into service of the third aircraft carrier, HMS *Ark Royal*, in 1985, two aircraft carriers would be operational at any one time, with the third in refit or on standby. The development of a wide range of naval weaponry was continuing, including equipping Sea King helicopters and Nimrod aircraft with lightweight Stingray torpedoes, the introduction of the Sea Eagle air-launched sea-skimming anti-ship missile, the further development of the Sea Wolf air defence missile, and the purchase of the Goalkeeper close-in weapon and of the Harpoon surface-to-surface guided weapon for service in frigates.

Outside NATO

While its responsibilities within the Alliance remained the first priority, the White Paper continues, Britain could not ignore threats to Western interests in other parts of the world. Moreover, it still retained defence commitments beyond the NATO area, in some cases backed by permanent garrisons. In addition to those in Cyprus (currently providing logistic support for peacekeeping operations by United Nations forces in Cyprus and Lebanon) and Gibraltar (of particular strategic importance at the western entrance to the Mediterranean), garrisons were present in the Falkland Islands, Hong Kong, Belize and Brunei. The Falklands garrison was being maintained at the minimum size necessary to defend the Islands and the Falkland Islands Dependencies. Britain's ability to rapidly reinforce the garrison in an emergency would be greatly improved when the new airfield became operational (see p 427, 1983), and it would then be possible to reduce the garrison's size.

Britain also devoted considerable effort to helping friendly countries to help themselves, through the provision of training assistance to their armed forces. Nearly 3,200 students from over 65

countries attended courses in Britain during 1982-83, while over 700 British servicemen were on loan in 29 countries and territories at the beginning of 1984. Britain also made periodic force deployments outside the NATO area – a naval task force visited the Far East and the Pacific and Indian Oceans in 1983 and undertook exercises with other navies – and maintained a capability to intervene to protect national or, with its allies and in response to a request for help, Western interests. Measures introduced to increase the flexibility of such forces, which are primarily committed to NATO, included improvements in air-to-air refuelling and naval afloat support.

Northern Ireland

Noting that the armed forces had played an indispensable part in helping to fight terrorist crime in Northern Ireland over the past 14 years, the White Paper says that sufficient progress had been made to allow Regular Army forces to be steadily reduced as the Royal Ulster Constabulary, supported by the Ulster Defence Regiment, was increasingly shouldering the burden of upholding the rule of law. There were eight army battalions deployed in the province, the lowest total for over 13 years. Although success against terrorism was only won slowly, the security forces were bringing the men of violence to justice and frustrating their efforts to disturb life in the Province.

Equipment Procurement

With expenditure on equipment expected to total £7,800 million in 1984-85 (some 46 per cent of the defence budget), the White Paper emphasises the importance the Government attached to securing value for money in equipment procurement (as also with respect to support, supply and maintenance services generally). This had been pursued, at the national level, through promoting more effective competition, which, in addition to being vital for the achievement of the best value for money, would ensure the most efficient use of industrial resources and stimulate innovation and new ideas. Competition was being fostered through such measures as privatisation, contracting out, and partnership with private industry, and these, it was hoped, would lead to significant savings and ensure a continuing shift in the balance of the defence programme towards additional front-line capability. At the same time, the wider applications of defence-funded research were being examined.

Britain also recognised the economic, operational and political advantages of collaborative weapons production and was involved in a wide range of joint projects with its allies. These included the multiple-launch rocket system with the Federal Republic of Germany, France, Italy and the United States; the SP70 self-propelled gun with the Federal Republic and Italy; the EH101 anti-submarine helicopter with Italy; a new generation of anti-tank guided weapons with the Federal Republic and France; and a new generation of air-to-air missiles with the United States. Britain was also working with other countries on the possible shared development of an advanced and highly agile fighter aircraft for the 1990s and on the feasibility of introducing a standard NATO frigate design. More needed to be done, however, if the Alliance was to take advantage of the potential offered by emerging technology for improving conventional defence. Britain, therefore, fully supported the efforts being made in NATO, the Eurogroup and the Independent European Programme Group both to increase co-operation between the European allies and to promote balanced transatlantic co-operation (see p 208).

Finance and Defence Management

Pointing out that the defence budget for 1984-85 will be £17,033 million, the White Paper states that Britain has been spending more on defence than any other European member of NATO in both absolute and *per capita* terms. Its defence expenditure as a proportion of gross domestic product (GDP) was 5·4 per cent in 1983, the third largest in NATO, being exceeded only by the United States and Greece. Current expenditure plans provided for a 3 per cent growth in real terms in 1985-86 when, excluding additional costs for the Falkland Islands, the budget would be nearly 20 per cent higher than in 1978-79. To ensure the efficient use of such large funds and, as far as possible, to switch resources and manpower from support services to front-line forces, a number of improved budgetary and management techniques had been introduced and, as part of this process, a reorganisation of defence management was announced in March 1984 (see p 11). A major element in these proposals is the establishment of an Office of Management and Budget to achieve stronger control over corporate planning, the commitment of resources and the monitoring of financial and management systems.

Personnel

The regular armed forces totalled some 324,700 personnel in January 1984, of whom 71,400 were in the Royal Navy and Royal Marines, 161,100 in the Army and 92,200 in the Royal Air Force. Reserve forces totalled 284,700, of whom 199,600 were regular reserves and 85,100 volunteer reserves and auxiliary forces. Cadet forces numbered 142,300.

The number of civilians based in Britain and employed by the Ministry of Defence was reduced by 47,700 to 200,000 between 1979 and 1984. Taking into account the privatisation of the Royal Ordnance Factories, it is expected that civilian manpower will fall to 170,000 by April 1988.

ESSAYS

The White Paper contains a number of essays on defence matters. Those concerned with the European contribution to NATO and Soviet defence expenditure are summarised below.

The European Contribution to NATO

A true partnership, the essay states, demanded that all Alliance members had to take their share of the economic and military burden of preserving their common freedoms. While the United States'

contribution was predominant and as crucial today to the defence of Europe as it was when the Alliance was formed in 1949 – there being no substitute for the American nuclear guarantee, for the presence of 330,000 American servicemen in Europe or for the huge reinforcements planned to come from North America in the event of war – Europe's contribution to the common defence was 'by no stretch of the imagination merely secondary to the American effort'. Of the Alliance's readily available forces in Europe, its European members provided about 90 per cent of the ground forces, about 80 per cent of the combat aircraft, about 80 per cent of the tanks and 90 per cent of the armoured divisions. They also contributed 70 per cent of the fighting ships in European waters and the Atlantic, and maintained about 3 million men and women on active duty, with some 3 million more in the reserves (the equivalent United States figures were 2 and 1 million). Moreover, while the United States had consistently devoted a greater proportion of its GDP to defence expenditure than its European allies, the gap had narrowed significantly during the 1970s, with the European allies increasing their real defence spending by about 2 per cent a year and the United States decreasing its by 2 per cent a year. Not until 1983 had United States real defence expenditure regained approximately its 1970 level, while European defence expenditure had grown by over one-quarter in the same period.

In times of tension NATO's readily available forces would be greatly strengthened by reserves from European countries. Britain could treble in a matter of days its forces deployed in peacetime in central Europe, while the Federal Republic of Germany could put 1 million men into the field in the same period. The large number of reinforcements from North America would also receive very substantial help from European nations in the form of secure lines of communication and ships and aircraft for transport. Similarly in peacetime European countries provided support in the form of facilities for training, airfields and harbours.

In the long term many of the challenges and problems facing NATO could be better met collectively. In particular the potential advantages to be gained from defence equipment co-operation were considerable, although this had to be done on a fair and equitable basis and one which respected the vital industrial and defence interests of each nation. In addition to the military advantages of standardising equipment, joint projects could mean longer production runs and therefore lower unit costs. The Independent European Programme Group, embracing all the European allies, had a particularly important role to play by fostering both equipment collaboration among the European members and closer and more balanced co-operation with North America. Similarly European nations could contribute to the exploitation of emerging technology, one of the West's greatest assets.

Outside the NATO area the United States, because of its global involvement and capabilities, inevitably took the lead in securing common Western interests against outside threats. Many European countries, however, also made important contributions, whether by providing transit and support facilities, participating in multinational peacekeeping forces, or acting on their own accounts. European countries having historical links with countries or regions outside the Alliance could also make possible the provision of military help and assistance. The removal of regional instability which could create opportunities for Soviet intervention had to be promoted by both military and diplomatic means, and European nations were contributing substantially to the development of international co-operation.

'In the final analysis, however,' the essay concludes, 'the defence of our freedom on both sides of the Atlantic rests with NATO. NATO's strength lies not only in its military capability, but in the common purpose of independent nations it represents. The European members of NATO recognise fully how important it is that their contribution should not only be on a substantial scale, but that it should help strengthen the cohesion of the Alliance as a whole.'

Soviet Defence Expenditure

A recent review by Britain and its NATO allies of Soviet defence spending since 1970, the essay states, had concluded that this was some five times higher than the published figure and constituted 14 to 16 per cent of the Soviet Union's gross national product. The estimated annual rate of growth to the mid-1970s was 4 per cent, but this was more than halved in subsequent years, mainly as a result of a reduction in the rate of procurement growth, coinciding with a decline in the rate of growth of the Soviet economy as a whole. A more recent factor had been the simultaneous running-down of a large number of long-established weapons programmes before successor systems had reached similar production levels. There was no evidence of a formal decision by the Soviet leadership to reduce the rate of growth, although it was possible that the procurement of some strategic missile systems could have been reduced as a result of the ceilings specified in nuclear arms control agreements.

Despite this, Soviet defence expenditure in terms of gross national product was at least double that of the United States and estimates suggested that it absorbed one-third of the output of the important machine-building and metal-working sector, depriving civil industry of scarce resources (particularly highly skilled manpower). It was not clear whether the recent slackening in its growth represented a long-term trend or not, but since a large number of weapon systems were at the research and development stage and defence production facilities continued to expand, a reacceleration of Soviet defence expenditure seemed on balance to be more likely. Even zero growth would still ensure sufficient resources for the procurement of large quantities of new military equipment, an increasing proportion of which would be accounted for by technologically more advanced systems. The scale of current investment in defence confirmed the continuing commitment of the Soviet leadership to military power.

North Atlantic Treaty Organisation

Meeting at the end of May, the North Atlantic Council reaffirmed the determination of members of the North Atlantic Treaty Organisation (NATO) to provide adequate nuclear and conventional forces to maintain their security, and, with a view to achieving this at the lowest possible level of forces, called upon the Soviet Union to return to the arms control negotiations on nuclear weapons in Geneva. In a separate statement on East-West relations, the Council reiterated the determination of the Allies to achieve a genuine détente through constructive dialogue and co-operation with the members of the Warsaw Pact.

The Council met in Washington from 29 to 31 May. Speaking to the press on 31 May, Britain's Secretary of State for Foreign and Commonwealth Affairs, Sir Geoffrey Howe, referred to the negative tone of current Soviet foreign policy, as reflected in the Soviet withdrawal from the nuclear arms control negotiations (see pp 418-20, 1983), but said that the Allies were in firm agreement that they must not allow Soviet intransigence and passivity to undermine NATO's hard thought-out positions when threats and interference had previously failed to do so. A change of course designed to bring the Soviet Union back to the Geneva talks would give absolutely the wrong signal. The right message for the foreseeable future was firmness in insisting on balance in defence and arms control and openness in dialogue and co-operation.

The meeting of the Council was preceded by meetings of NATO's Defence Planning Committee and Nuclear Planning Group, and of the Eurogroup.

NORTH ATLANTIC COUNCIL

The following communiqué[1] (slightly abridged and with headings added) was issued after the Council meeting.

The North Atlantic Treaty, signed in Washington on 4 April 1949, continues to fulfil the expectations of the Allies. It is a major factor for peace and stability in an era of world-wide change and numerous conflicts. The strength of the Alliance and the solidarity born of shared values and reinforced by the practice of consultation between its sovereign member states have secured peace in the Treaty area and the freedom of its peoples.

The Atlantic Alliance is a defensive alliance. None of its weapons will ever be used except in response to attack. The firm adherence of members of the Alliance to their commitments under the North Atlantic Treaty, the United Nations Charter and the Helsinki Final Act contributes to the maintenance of peace and to the strengthening of international law. Faced with the continued expansion of Soviet military strength beyond reasonable defence needs, the Allies are determined to safeguard their legitimate security interests. They look to the Soviet Union to respect these as the Allies respect the legitimate security interests of the Soviet Union.

Without seeking superiority, the Allies will maintain the conventional and nuclear forces necessary to deter and defend against aggression and to resist attempts at intimidation. To this end they will continue to seek more effective and balanced transatlantic armaments co-operation, bearing in mind the need for efficiency, economy of costs and exploiting and sharing of emerging technologies.

East-West Dialogue

Ministers took note of the thorough appraisal called for at their last meeting with a view to achieving a more constructive East-West dialogue. They issued the 'Washington Statement on East-West Relations' [see pp 207-8]. *They reaffirmed their continued intention to work for genuine détente through building up more contacts and co-operation with the Soviet Union and the countries of Eastern Europe, while maintaining effective defence and firm political resolve. The aim of the Allies remains the establishment of a stable, long-term relationship based on mutual trust and understanding, and on respect for sovereignty, self-determination and human rights. They do not accept the Soviet view that confrontation between the social systems of East and West is inescapable. All states should work resolutely to realise the hopes of the peoples of the world for peace and progress, and to dissipate the common fears of war and misery.*

Both the achievement of balanced arms control agreements and the restoration of confidence in East-West relations would reduce the risks of conflict and provide an enduring basis for peaceful progress.

Arms Control

The members of the Alliance are committed to ensure security by a balance of forces at the lowest possible level. In consultation with the Allies concerned, the Government of the United States has made a comprehensive series of proposals in the intermediate nuclear forces (INF) and the strategic arms reduction talks (START) at Geneva for substantial reductions leading to arms control agreements which would be balanced, equitable and verifiable. The Allies concerned have offered to halt, reverse or modify deployments of US-INF – including the removal and dismantling of missiles already deployed to Europe – on the basis of concrete results at the negotiating table. They call upon the Soviet Union to resume negotiations on nuclear forces without preconditions or delay. In the absence of concrete negotiated results, longer-range INF missiles are being deployed in accordance with the December 1979 decision, all parts of which are of equal importance.[1]

The policy of the Alliance is to maintain nuclear weapons at the lowest level possible for effective deterrence. The Allies concerned withdrew 1,000 nuclear weapons from Western Europe in 1980 and will over the next few years withdraw another 1,400, as well as one weapon for every Pershing

[1]As on previous occasions, Spain reserved its position on the communiqué.

[1]Denmark and Greece reserved their positions on the part of the communiqué dealing with intermediate nuclear forces.

II and cruise missile deployed. The resulting stockpile will be the lowest in Europe for some 20 years.

In the Conference on Disarmament the Allies continue to seek balanced, realistic and verifiable disarmament measures. They welcome the contributions made by several Allies, in particular the comprehensive draft treaty submitted by the United States for a world-wide verifiable ban on the production, stockpiling and use of chemical weapons [for Britain's proposals, see pp 79-80]. *The Conference on Disarmament is the forum where an effective ban on chemical weapons can be negotiated, and the Allies will work seriously to that end. The Allies remain gravely concerned about strong evidence of the use of chemical weapons in South-East Asia and Afghanistan, in violation of international law, and of Soviet involvement in the use of such weapons. With regard to recent developments in the conflict between Iran and Iraq, they reiterate their categorical condemnation of any use of these weapons.*[1]

The Allies have also proposed that the Conference on Disarmament identify, in the first instance, through substantive examination, issues relevant to the prevention of an arms race in outer space. They regret that so far the Soviet Union and the Eastern countries have opposed the establishment of the appropriate working group. The Allies welcomed the willingness of the United States to discuss with the Soviet Union research programmes on strategic defence.

The Allies participating in the Mutual and Balanced Force Reductions (MBFR) talks, in accordance with their commitment to these negotiations and following a review decided upon by ministers at their meeting last December, have tabled a major new proposal in Vienna. This proposal seeks to resolve some of the most basic issues of these negotiations, in particular on the long-standing question of obtaining a satisfactory data base, and offers a new approach to the reductions and limitations process. If the East is prepared to match the flexibility demonstrated by the West in the new initiative, it will be possible for real progress to be made towards an MBFR agreement that provides for substantial, verifiable reduction of personnel to equal collective levels of ground forces and parity of combined ground and air forces in Central Europe.

Security and Co-operation in Europe

The Helsinki Final Act and the Madrid Concluding Document [see pp 324-8, 1983] *are foundations on which to build constructive relations. The Allies reaffirm their commitment to the full and effective implementation by all states participating in the process initiated by the Conference on Security and Co-operation in Europe (CSCE) of the principles which participating states have undertaken to respect in their relations with each other. All principles and provisions agreed in Helsinki and Madrid, including those concerning relations between states, human rights and contacts between individuals, must be implemented. The Allies are especially concerned over disregard, in particular by the Soviet Union, of the humanitarian provisions, which affects not only internationally known personalities but also a great many others. In the continuing CSCE process the members of the Alliance will pursue efforts to conduct an in-depth dialogue and develop co-operation between all participating states. At the Conference on Confidence and Security-building Measures and Disarmament in Europe (CDE) in Stockholm* [see pp 48-9] *the Allies at the outset tabled concrete proposals in conformity with the mandate agreed at the Madrid CSCE follow-up conference. These proposals call for an agreement on measures designed to build confidence and increase security through openness about armed forces and military activities throughout the whole of Europe so as to reduce the risk of miscalculation or the possibility of surprise attack. In order to give further effect and expression to the existing duty of all participating states to refrain from the threat or use of force in their mutual relations, agreement would be necessary on the above concrete measures in accordance with the Madrid mandate.*

Poland

The situation in Poland and in particular the recent increase in the number of political prisoners continues to give cause for serious concern. The Allies call upon the Polish authorities to respect the aspirations of the people for reform and dialogue and to abide by the commitments in the Helsinki Final Act and the Madrid Concluding Document, particularly with regard to trade union freedom and human rights. The Allies remain ready to respond to steps which create the opportunity for constructive political and economic relations with the East.

Afghanistan

The Allies condemn the massive devastation and suffering inflicted on the civilian population by the Soviet military presence in Afghanistan. Increasingly severe attacks such as the latest assault on Panjshir suggest the Soviet Union is stepping up its brutal campaign. This is in violation of fundamental principles of international law, the United Nations Charter and the Helsinki Final Act and in flagrant defiance of repeated calls by the United Nations General Assembly for the immediate withdrawal of foreign troops, the restoration of Afghanistan's independence and non-aligned status, self-determination for the Afghan people and the voluntary return of refugees to their homes in safety and honour. It is for the Soviet Union to honour its obligations under the United Nations Charter to withdraw its troops immediately and to allow the Afghan people to determine their own future.

Berlin

The maintenance of a calm situation in and around Berlin, including unimpeded traffic on all the access routes to the city, remains of fundamental importance for East-West relations. The Allies welcome the efforts of the Federal Republic of Germany to strengthen Berlin's economy. They also express the hope that the continuation of the

[1]Greece recalled its position as it has been expressed during previous ministerial sessions.

Federal Government's dialogue with the GDR, together with its efforts to achieve further practical progress in inner-German relations and in improvements for travel in both directions, will directly benefit Berlin and the Germans in both states.

East-West Trade

Trade conducted on the basis of commercially sound terms and mutual advantage, that avoids preferential treatment of the Soviet Union, contributes to constructive East-West relations. At the same time, bilateral economic relations with the Soviet Union and the countries of Eastern Europe must remain consistent with broad Allied security concerns. These include avoiding dependence on the Soviet Union, or contributing to Soviet military capabilities. Thus, developments of Western energy resources should be encouraged. In order to avoid further use by the Soviet Union of some forms of trade to enhance its military strength, the Allies will remain vigilant in their continuing review of the security aspects of East-West economic relations. This work will assist Allied governments in the conduct of their policies in this field.

Outside the Treaty Area

The Alliance, which respects the sovereignty and legitimate interests of all states, works for peace, security and development. Its member countries seek to expand economic and cultural relations with all countries and are committed to give assistance to developing nations, believing these policies are mutually beneficial and contribute to peaceful evolution. They consider respect for genuine non-alignment by all states an important contribution to international stability. The Allies recognise that events outside the Treaty area may affect their common interests as members of the Alliance. They will engage in timely consultations on such events, if it is established that their common interests are involved. Sufficient military capabilities must be assured in the Treaty area to maintain an adequate defence posture. Allies who are in a position to do so will endeavour to support those sovereign nations who request assistance in countering threats to their security and independence. Those Allies in a position to facilitate the deployment of forces outside the Treaty area may do so, on the basis of national decision.

Economic Assistance within NATO

The Allies recall their commitment under Article 2 of the North Atlantic Treaty and reaffirm the importance of programmes intended to benefit the economies of less favoured partners who need aid for development.

Terrorism

The Allies remain seriously concerned about acts of international terrorism. In accordance with the relevant provision of the Bonn Declaration [see p 232, 1982], *they reiterate their determination to take effective measures for the prevention and suppression of such criminal acts, which are a threat to the democratic institutions they are pledged to defend, to stability and to the conduct of international relations.*

WASHINGTON STATEMENT ON EAST-WEST RELATIONS

In a separate statement on East-West relations, ministers said that in order to ensure the security of members of the Alliance, the most appropriate long-term policies were those identified in the 1967 Harmel report[1]: the maintenance of adequate military strength and political solidarity and, on that basis, the pursuit of a more stable relationship between the countries of East and West through dialogue and co-operation. These elements were complementary. 'Dialogue can only be fruitful if each party is confident of its security and is prepared to respect the legitimate interests of others: military strength alone cannot guarantee a peaceful future.' Both sides had an interest in safeguarding peace, building confidence, increasing security, improving mechanisms for dealing with crises and promoting prosperity, and with these in mind the Allies were determined to promote 'more constructive dialogue and co-operation with the members of the Warsaw Pact with a view to achieving genuine détente'.

Emphasising their support for the continuation and strengthening of the CSCE process, ministers stressed the need to implement the 1975 Helsinki Final Act and the 1983 Madrid concluding document in all their parts. Much still remained to be done, for 'any improvement in East-West relations would be incomplete if individuals were not able to benefit from greater respect for human rights and increased human contacts'. The Allies would continue to be guided by the awareness of a common history and traditions of all European peoples and supported the political aim of the Federal Republic of Germany to work towards a state of peace in Europe in which the German people would regain its unity through free self-determination.

Ministers said that neither East nor West should seek unilateral advantage, military superiority or dominance over other states. Non-use of force, restraint and respect for international rules of conduct were essential for strengthening confidence and co-operation. The Allies respected the sovereignty and independence of states everywhere and genuine non-alignment. This was reflected in their political, economic and aid relations with other countries. 'Responsible Soviet behaviour world-wide would be an important contribution to a durable improvement in East-West relations.' Noting that Allied security interests could be affected by developments outside the NATO area, ministers agreed to engage in timely consultations on such developments and underlined the responsibility of all states to prevent the transfer of East-West differences to the regions of the Third World.

[1]The Harmel report ('Report of the Council on the Future Tasks of the Alliance') was adopted by the NATO Council in 1967. It defined two main and complementary tasks for the Alliance: first, to maintain adequate military strength and political solidarity to deter aggression and to defend its members; and, secondly, to search for progress towards a more stable relationship in which the underlying political issues could be solved (see pp 9-10, 1967).

Turning to their offers to improve East-West relations (see p 9), ministers proposed that particular efforts should be devoted to dialogue, co-operation and contacts at all levels on the full range of questions between East and West; to mutually advantageous trade and economic co-operation with Warsaw Pact members on commercially sound terms and consistent with the Allies' broad security concerns; and to achieving security at the lowest possible level of forces through balanced, equitable and verifiable agreements on arms control, disarmament and confidence-building measures. The Allies would continue to emphasise the readiness of the United States to resume bilateral negotiations with the Soviet Union on intermediate-range nuclear forces and strategic arms reductions without preconditions, and to call upon the Soviet Union to return to the negotiating table.[1] In addition they would work for progress at the mutual and balanced force reductions negotiations, urge the world-wide elimination of chemical weapons, and press at the Stockholm Conference for agreement on concrete measures, designed to build confidence and ensure the openness of military activities in the whole of Europe, thus reducing the risk of surprise attack and the threat of war.

In conclusion ministers stated that peace and stability required a united effort. 'The Allies look to the Soviet Union and the other Warsaw Pact countries to join in an endeavour which would be of benefit to the world at large. The Allies are prepared to do their part and are ready to examine any reasonable proposal. A long-term, constructive and realistic relationship can then be brought about.'

DEFENCE PLANNING COMMITTEE

In their communiqué[2] issued after a ministerial meeting of NATO's Defence Planning Committee in Brussels on 16 and 17 May, defence ministers noted with concern the steady accumulation of Soviet military power and the scale of modernisation of Warsaw Pact forces across the entire spectrum. Moreover, the Soviet Union had announced plans to deploy further INF missiles in the German Democratic Republic, allegedly in reaction to NATO's initial deployment of cruise and Pershing II missiles. 'Clearly the Soviet Union is using the implementation of the double track decision as a pretext to carry out an already planned programme of modernisation and upgrading of its INF potential in Europe which began even before the 1979 decision by NATO.' Ministers repeated their willingness to reverse, halt or modify NATO deployments as part of a balanced, equitable and verifiable agreement.

Reaffirming the strategy of flexible response and the need for balanced, modern and effective nuclear and conventional forces, the communiqué stressed NATO's determination to strengthen its conventional capabilities, emphasised the importance of achieving the most effective use of resources, and welcomed the progress made in examining the use of emerging technologies to make substantial and affordable improvements to conventional defence. Ministers also welcomed the identification by the Conference of National Armaments Directors of potential programmes for multilateral co-operation, for example, the NATO frigate programme for the 1990s, and reaffirmed the need for a balanced and enhanced framework of transatlantic co-operation in defence procurement.

To strengthen the Alliance's conventional capabilities, ministers agreed to continue NATO's infrastructure programme with substantial increased funds.

[1]Greece reserved its position on this section.

[2]As on previous occasions, Spain reserved its position on the communiqué.

NUCLEAR PLANNING GROUP

At a meeting of NATO's Nuclear Planning Group in Turkey on 3 and 4 April, the Alliance's defence ministers reaffirmed their support for the determination of the United States and Britain to maintain the deterrent capabilities of their strategic forces, and confirmed their support for the United States' position concerning the strategic arms limitation talks and negotiations on intermediate-range nuclear forces. They expressed concern about the military build-up of the Soviet Union, pointing out that in recent months it had increased the number of deployed SS20 launchers to 378, comprising 1,134 warheads, and that more bases were under construction. Moreover, the Soviet Union was replacing older shorter-range missiles by a new generation of more accurate SS21, SS22 and SS23 missile systems, and there were indications that, for the first time, it had taken steps to deploy forward SS12 and SS22 missiles in the German Democratic Republic and Czechoslovakia.

EUROGROUP

A ministerial meeting of NATO's Eurogroup[1] took place in Brussels on 15 May under the chairmanship of Britain's Defence Secretary, Mr Michael Heseltine. In their communiqué ministers stressed the importance of maintaining a strong European contribution to the Alliance's defensive capability and of devoting the necessary resources to ensure the continued effectiveness of deterrence. They emphasised the need for greater co-operation in the procurement of armaments within Europe and between Europe and North America and for the exchange of defence technology among the Allies while protecting it from acquisition by the Warsaw Pact. In addition, they stressed the importance of standardising NATO equipment and of increasing the value obtained from money spent on defence equipment.

In this context, the ministers welcomed recent steps by the Independent European Programme Group to improve the prospects for successful equipment collaboration and to redress the imbalance in the transatlantic armaments trade; and also the Group's success in concerting European views on the use of emerging technologies in improving conventional forces and on improving

[1]Consisting of Belgium, Britain, Denmark, the Federal Republic of Germany, Greece, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain and Turkey.

industrial collaboration. They resolved to pursue new opportunities for collaboration and to look again at those areas where it had proved difficult to devise co-operative solutions in the past.

Britain and Europe

Britain's commitment to the European Community and its future development was reaffirmed by the Foreign and Commonwealth Secretary, Sir Geoffrey Howe, in a speech given to the Franco-British Chamber of Commerce and Industry in Paris on 25 May.

The Community, Sir Geoffrey said, had registered remarkable achievements in the 25 years of its existence, had evolved with extraordinary speed, and was now on the verge of becoming a Community of 12 members. It had been a beacon for Greece, Spain and Portugal as they emerged from dictatorship, for the prospect of membership with its tangible economic benefits and the advantages of belonging to the world's largest economic grouping had been a powerful element in strengthening their democracy.

Although Britain, too, had joined the Community late, its qualifications had never been in doubt. It was one of Europe's oldest democracies, and Britain had become a member in order to add its voice to that of other European countries, to play its full part in European political and economic construction, and to contribute its weight to the role which Europe could and had to play in world affairs.

Britain's Commitment

Britain was a wholehearted member of the Community, Sir Geoffrey continued, and its commitment was reflected in the role it played in Europe. Britain took a large share in the defence of Western Europe and, like France, bore the responsibilities of an independent nuclear power. It had 55,000 servicemen stationed on the central front in Europe, made the largest European contribution to the naval strength of the North Atlantic Treaty Organisation (NATO), and spent over 5 per cent of its gross domestic product on defence, to the benefit of collective security (see pp 201-3). A formidable contribution was made by Britain to the European Community's economic structure: two-thirds of Community fishing waters were around Britain's coasts and, because it was one of Europe's smaller agricultural producers, it provided a substantial outlet for agricultural exports from the rest of the Community. Britain also provided export opportunities for manufactured goods which were still significantly larger than those which Britain's growing industrial strength was achieving in the rest of the Community. 'These facts underline the scale of Britain's commitment to the Community. That is why there is such a lively expectation in the United Kingdom that the Community as a whole will make a determined effort to achieve a solution to the long-running argument about finance.'

Community Finance

Noting that the fulfilment of political goals through economic means was the essence of the Community, Sir Geoffrey said that a sound national economy was essential to the health of democracy. The same was true of the Community as a whole since the original six members had made sure that the Treaty of Rome, the structure of the policies it laid down, and the development of these policies reflected their national economic interests. German industry had stood to benefit considerably from the advantages of a common market while French agriculture stood to draw more advantage from the creation of a common agricultural policy. These policies had served the original six member states well but were not so suitable for new members.

During the negotiations to join the Community Britain had pointed out that as a relatively small agricultural producer it would gain relatively little from the Common Agricultural Policy (CAP) and that, if the balance of policies remained unchanged, it would at the end of the transitional period in 1979 be paying into the budget far more than it received. Britain's partners had then given an assurance that the balance of Community policies would change, that there would be less emphasis on agriculture and more on industry and the completion of the common market, and that, if that change did not take place and an unacceptable situation arose, the very survival of the Community would require solutions to be found. In the event the balance remained unchanged, for Britain contributed 21 per cent of the budget in the form of customs duties, agricultural levies and value added tax, while only 13 per cent of Community expenditure took place in Britain. The main reason for the imbalance was not the pattern of British trade, since Britain's trading relationships were broadly in line with those of its partners.[1] The chief reason was that Community expenditure did not favour countries with a small agricultural sector. As a result Britain received just 10·5 per cent of agricultural guarantee expenditure – half the rate at which it contributed to the Community budget. It would not, however, help if Britain tried to correct the imbalance by boosting agricultural production in the face of mounting surpluses within the Community.

Observing that the Treaty of Rome explicitly provided for the transfer of resources between member states to reduce regional differences, Sir Geoffrey said that Britain was transferring resources not just to member states less prosperous than itself but to those which were more prosperous. This was contrary to the principle, universally recognised in each member state, that resources should flow from more to less prosperous regions, not the other way round.

The problem had, however, been recognised by Britain's partners as had the need to ensure that Community policies were working in the best interests of member states, that the Community was geared to accomplish the next enlargement, and that it was able to play its full part in world

[1]The percentage of British visible exports going to the other nine member states increased from 35 per cent in 1972 to almost 44 per cent in 1983.

affairs. At their meeting at Stuttgart in June 1983 (see pp 226-8, 1983), Community heads of government had agreed to make a concerted attempt to relaunch the Community, for they had recognised that the Community was running out of money, that spending was out of control, that the budget system had to be made fairer, that the CAP needed urgent review, and that a fresh impetus had to be given to Community policies.

Since then much progress had been made. The Community had recognised that the budget problem could not be dealt with on the basis of temporary refunds argued over year after year and agreement had been reached in March on a French Presidency proposal to ensure that no member state would pay more than its fair share of the Community budget (see pp 114-16). This was all the more important in the context of enlargement, for in the absence of such a system Portugal would face the prospect of joining Britain and the Federal Republic of Germany as a significant net contributor. Moreover, if an increase in the Community's resources were agreed without establishing a corrective system, the imbalance would simply get worse and would be a fatal flaw in the relaunch of the Community. Although Britain remained ready to continue making a significant contribution to the cost of modernising Europe, it could not agree to an increase in resources without agreement on a fairer distribution of the financial burden and a firm commitment by all member states to bring Community spending under control.

Agricultural Spending

Turning to the question of agricultural spending, Sir Geoffrey said that the CAP had achieved an astonishing growth in productivity and self-sufficiency and had made a major contribution to the balance of payments of many member states. Nevertheless it still absorbed two-thirds of Community expenditure and the gap between Community and world prices was large and growing. Moreover, agricultural spending had increased by 30 per cent in 1983 and massive surpluses had to be disposed of at great cost. The result was that the Community was running out of money. Agricultural ministers had applied quotas to milk production and cut the prices of many products (see pp 116-17), since it made no sense to continue producing vast quantities of milk that no one would drink. The same was true of surpluses of beef, cereal, wine and olive oil. In the long term the difficulties would become worse if nothing was done. This was why the British Government was insisting on the need for a strict financial guideline to ensure that agricultural expenditure grew more slowly than the Community's own resources (see p 330, 1983).

Relaunch of the Community

Sir Geoffrey said that member states needed to address themselves to the larger issues before the Community – the role of Europe in the world, measures to increase security and economic well-being, and methods of dealing with the technological challenge of the United States and Japan. The Community had to use its resources of technical know-how and skilled manpower to reassert its position as a powerhouse of technology and industrial strength. In particular it needed to create greater European unity to help strengthen Western security and to open up new avenues of contact between East and West, to use its historical and trading links to increase understanding between developed and developing countries, and to use its influence for freedom, justice and civilised relations throughout the world.

There were two areas in which the Community needed to make progress if it were serious about its relaunch, Sir Geoffrey said. First, the common market had to be completed, for, if enterprises were to create prosperity and jobs, they had to be allowed to operate on a European level. The common market needed to be completed through the harmonisation of industrial standards, the mutual recognition of professional qualifications, the opening-up of domestic markets, the simplification of frontier controls, and the liberalisation of trade in services. Enterprises would not become fully competitive if they were not given the benefit of the largest single market in the industrialised world.

Secondly, a major effort was required to develop industrial collaboration. Improved collaboration on research, development, production and marketing could help to avoid duplication and waste and keep costs down. It was right for governments to play a part, but it was of even greater importance for co-operation to be expanded at the industrial level. A useful lead had been given by the decision of ICL, Bull and Siemes to establish joint research facilities into the next generation of computers. Much had already been done by Britain and France in the fields of fast breeder reactors, civil and military aircraft, aero-engines, satellites, telecommunications, the offshore industry and automobile components.

Defence and Security

Commenting on the issues of mutual defence and security, Sir Geoffrey said that a greater contribution by Europeans to their common defence was in the interest of all, including the United States. There was a need to strengthen and improve the cohesion of the European pillar of the Alliance, and one possibility, which had attracted the interest of several governments, and notably the French Government, was to reactivate the Western European Union (WEU).[1] This committed its members to mutual defence and to closer co-operation on defence policy questions. It contained an organised structure, including a Council and a parliamentary Assembly, which could be used to debate the key questions affecting security and help stimulate an informed public debate. 'If we are to move forward within the framework of the

[1]The 1948 Brussels Treaty, signed by Britain, Belgium, France, Luxembourg and the Netherlands, provided among other things for their collective defence. In 1954 the treaty was modified to include the Federal Republic of Germany and Italy in a new intergovernmental organisation called Western European Union. Following a meeting of ministers from the WEU's seven member states on 12 June, Sir Geoffrey Howe reaffirmed that there was a need to strengthen the European pillar of the Atlantic alliance.

WEU', Sir Geoffrey added, 'we must do so in a way which will strengthen the European contribution to the common defence, without encroaching on the functions of NATO.'

Combating International Terrorism

Following a speech by the Home Secretary on 31 May at a conference of ministers of justice from Council of Europe member countries in Madrid in which he put forward proposals for practical co-operation to counter international terrorism, the ministers agreed a resolution designed to lead to a common approach against international terrorism and organised crime.

Home Secretary's Speech

Referring to the incident in London when a policewoman was shot dead from the window of the Libyan People's Bureau and 12 Libyans injured (see pp 161-3), the Home Secretary, Mr Leon Brittan, said that what occurred could have happened in any of the countries represented at the conference. All were experiencing the problem of international terrorism and should seek to ensure that greater international efforts were made to prevent such incidents. The United Kingdom had begun to discuss the question of countering international terrorism and the misuse of diplomatic immunity with other member countries of the European Community and the Prime Minister would raise it at the Economic Summit in London in June (for the declaration on international terrorism adopted at the Economic Summit, see p 219). Improvements in existing bilateral arrangements were also being sought. There was already a heartening degree of international security co-operation and such meetings as the present conference reinforced the realities of European co-operation in a common cause.

Mr Brittan said that the terrorism practised by individuals and groups had been joined by another terrorist phenomenon – the terrorist state. There were now regimes seeking to achieve their ends through the elimination of their opponents, not just within but also outside their own frontiers, and doing so with little fear of effective retaliation from the host states within which the attacks took place. This was unacceptable and it was for civilised nations to act together to resist what had become a new and highly dangerous threat to peace, security and stability.

Mr Brittan put forward three practical suggestions. He proposed first that there should be 'international solidarity' in dealing with expelled diplomats. All the countries represented had at some time had to expel diplomats who had been engaged in unacceptable activities, sometimes involvement in terrorism. It would be a useful step forward to agree that diplomats expelled from any of the states represented at the conference should be regarded as unacceptable in the others. Secondly there should be closer co-operation in the international exchange of information about threatened terrorist acts; such information could save lives. It would be a real advance if existing arrangements were developed to improve the rapid exchange of information about terrorist threats. Thirdly, steps should be taken to promote the exchange of information about the individuals who posed such threats. The groupings, the motivation, and the excuses for indiscriminate violence varied but sometimes it was the same people who were involved.

Mr Brittan said his proposals were intended to foster practical co-operation at working level in government and police services which was the most effective weapon against those who wished to bring their violence to the countries of Europe.

The Resolution

In their resolution, the 21 Council of Europe ministers noted that events had shown the need for concerted action against all forms of terrorism, including acts of violence against diplomats and any abuse of diplomatic privileges and immunities, and against international organised crime. With a view, therefore, to improving the exchange of information between member states and adopting a common approach based on solidarity towards terrorism and international organised crime, they recommended the establishment of an *ad hoc* body within the Council of Europe to study these questions.

Iran-Iraq Conflict

Britain has condemned recent attacks on international shipping in the Gulf by both Iran and Iraq in what is seen as a serious escalation of their conflict which began in 1980. The United Nations Security Council, which debated the issue in May at the request of the Gulf Co-operation Council, passed a resolution condemning the attacks and reaffirming the principle of free navigation. In June, participants in the London Economic Summit promised their support for efforts designed to achieve a peaceful settlement (see p 220).

In recent weeks the Iran-Iraq conflict (see pp 290-2, 1980 and p 312, 1982) has widened to include attacks by both sides on international shipping, including British, Saudi Arabian and Kuwaiti oil tankers, passing through the Gulf. Iraq claims to have attacked vessels sailing to or from Iran's main oil terminal on Kharg Island and other Iranian ports and Iran to have attacked tankers sailing to or from ports in the Gulf states.

A Foreign and Commonwealth Office statement issued on 16 May expressed the British Government's serious concern at 'indiscriminate attacks on the shipping of neutral countries' and called for both belligerents to end the fighting as soon as possible; in the meantime, it said, freedom of navigation in the Gulf and through the Straits of Hormuz had to be respected, as the international

community had repeatedly made clear. Britain, the Prime Minister, Mrs Margaret Thatcher, told the House of Commons on 17 May (*Hansard*, Vol 60, No 157, col 501), was willing to support any initiatives in the United Nations that were likely to achieve peace.

Security Council Resolution

At the request of representatives from Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates,[1] the Security Council met in late May to discuss the situation in the Gulf. On 1 June the Council passed resolution 552 (by 13 votes in favour to none against with two abstentions), expressing its deep concern over the attacks on shipping which constituted a threat to the safety and stability of the Gulf region and had serious implications for international peace and security. The resolution called upon all states to respect in accordance with international law the right of free navigation, and reaffirmed such a right in international waters and sea lanes for shipping going to and from all ports and installations of the littoral states not party to the hostilities. The resolution further called upon all states to respect the territorial integrity of the states not party to the hostilities and to exercise the utmost restraint and refrain from any act which might lead to a further escalation and widening of the conflict. Condemning the recent attacks on commercial shipping en route to and from the ports of Kuwait and Saudi Arabia, the resolution went on to demand that they should cease forthwith and that there should be no interference with ships going to and from states not party to the hostilities. Failing this, the Security Council would meet again to consider effective measures commensurate with the gravity of the situation in order to ensure freedom of navigation in the area. Finally, the resolution requested the United Nations Secretary-General to report on the progress of its implementation.

Britain's View

Explaining his support for the resolution, Britain's Permanent Representative at the United Nations, Sir John Thomson, said that Britain, in common with the other members of the European Community,[2] was deeply concerned at the escalation of the Iran-Iraq conflict, which presented an increasing threat to the stability of the region and to the international economy. Agreeing with the United States' view that the acceleration of attacks against shipping going into or out of the ports of non-belligerent states in the Gulf threatened not only those states but indirectly posed a potential threat to world price levels, Sir John said the British Government was opposed to all actions contributing to a continuation of the conflict and to those contravening international law which had escalated and widened that conflict to the Gulf. Britain, which was bound to the Gulf states by many ties of history and friendship, and enjoyed close and cordial relations with them, fully supported recourse by the Gulf Co-operation Council to the Security Council. The attacks on shipping had taken place in international waters and in the territorial sea of the states concerned and were both reprehensible and unjustified. The British Government applauded the restraint which the Gulf states had shown in this very difficult situation and believed that the international community should show support for them.

Demanding an immediate end to the attacks, which had to be condemned, Sir John said the whole international community had an interest in freedom of navigation, which should be guaranteed in the Gulf area. It also had a vital concern in the free flow of shipping to and from the Gulf states, including the flow of oil. It was right that the Gulf should be insulated from the Iran-Iraq conflict and that the principle of freedom of navigation should be reasserted.

The Security Council, said Sir John, had already taken a position in its resolution 540[1] which affirmed the right to free navigation and commerce and called upon the belligerents to cease all hostilities in the region of the Gulf, and that affirmation remained valid. As a maritime nation of long standing, Britain considered the principle of freedom of navigation of paramount importance and deplored any threat to navigation whenever and wherever it occurred. This fundamental principle had to apply equally to the Gulf and the present resolution contained a clear and general reaffirmation of it. In Britain's view, neither side had the right to attack neutral shipping indiscriminately, whatever its destination. The breach of international law was flagrant if the shipping attacked was in transit to the ports of third countries and was compounded if the attacks took place in the territorial waters of the third countries, violating those waters and the sovereignty of the coastal states as well as the rights of the flag state.

Calling, in conclusion, for a return to stable conditions in the Gulf, Sir John said Britain keenly wished to see an end to the conflict between Iran and Iraq which had brought so much tragic loss of life to both nations, had so wasted their resources and had led to the current instability. 'Any intransigence over a peaceful settlement must be put aside in the interests of the people of Iran and Iraq, of the Gulf area, and of the international community in general. The United Kingdom is ready to give its full support to any efforts to mediate between the parties for a peaceful settlement, including those of the Secretary-General.'

[1]Member states of the Gulf Co-operation Council.

[2]On 20 and 21 May the member states of the European Community delivered messages to the Iranian and Iraqi authorities urging restraint and emphasising the need to preserve freedom of navigation in the Gulf.

Visit of South African Prime Minister

In discussions with the South African Prime Minister, Mr Pieter Botha, during his visit to

[1]Approved by the Security Council on 31 October 1983, resolution 540 called upon the belligerents to 'cease immediately all hostilities in the region of the Gulf, including all sea-lanes, navigable waterways, harbour-works, terminals, offshore installations and all ports with direct or indirect access to the sea, and to respect the integrity of the other littoral States'.

Britain on 2 June, the British Prime Minister, Mrs Margaret Thatcher, reaffirmed Britain's opposition to apartheid and its support for an early agreement on Namibia's independence.

Reporting to the House of Commons on 5 June (*Hansard*, Vol 61, No 164, cols 157-68), Mrs Thatcher said that there had been five hours of comprehensive and candid discussions covering the problems of southern Africa as a whole, including Namibia, and the internal situation in South Africa. Britain had made clear its desire to see peaceful solutions to all the region's problems.

On Namibia, Mrs Thatcher said that both sides had agreed that early independence for Namibia was desirable, that it should be achieved as soon as possible under peaceful conditions, and that all foreign forces should be withdrawn from the countries in southern Africa so that their peoples could settle their destinies without outside interference. The withdrawal of South African forces from Angola was an important first step in this process.[1]

Referring to the internal situation in South Africa, Mrs Thatcher said that she had expressed Britain's strongly held views on apartheid. Particular concern had been expressed at the practice of forced population removals[2] and the question of the continued detention of Mr Nelson Mandela (a leader of the African National Congress sentenced to life imprisonment in 1964) had also been raised. Mr Botha had given an account of his Government's recent constitutional measures (see footnote, p 410, 1983) and of the appointment of a Cabinet committee to make proposals for the political future of the black population outside the homelands.

The Prime Minister believed that South Africa now understood more clearly where Britain stood on all the major issues. 'My talks with Mr Botha are part of the process through which we and other Western and African countries must continue to press for the sort of changes that we all want to see in southern Africa.'

Answering questions, Mrs Thatcher said that Britain had honoured, and would continue to subscribe to, the United Nations embargo on arms to South Africa; that it could not close the London office of the African National Congress, unless anyone there contravened British law; and that it was totally wrong to discriminate between people on the basis of the colour of their skin. The independence of Namibia had to be achieved under United Nations Security Council Resolution 435, that is, in a way acceptable to the international community, and she did not believe that this would occur unless there was, in parallel, a withdrawal of Cuban troops from Angola. Britain, however, did not accept any 'specific linkage' between the two issues.

[1]On 16 February South Africa and Angola agreed to create a joint South African/Angolan commission to monitor the disengagement of South African forces from Angola and both Governments have since confirmed their commitment to the disengagement process in a number of public statements.

[2]Before Mr Botha's visit, the people of Kwa Ngema, a small black community in the eastern Transvaal faced with forced relocation, wrote to Mrs Thatcher appealing to her to raise their case with the South African Prime Minister.

Commonwealth Development Corporation

The annual report[1] of the Commonwealth Development Corporation (CDC), published in May, shows that the Corporation's new commitments in productive enterprises in developing countries were some £100·3 million in 1983. Total investment commitments at the end of the year were nearly £776 million, of which £254·9 million was for basic development, including power and water, housing finance and transport; £404·9 million for primary production and processing; and £116 million for industry and commerce. The Corporation's investments by region are shown in the table (see p 214).

Established in 1948, the Corporation is a statutory body which invests in the development of material and human resources, choosing its projects principally for their development value to the country concerned. At the same time, it operates on commercial lines so as to provide a reasonable rate of return on the money invested, and is required to pay its way taking one year with another. (Since 1955, about one-third of its investments have been financed from self-generated surpluses.)

The Corporation's main source of funds is allocations from the British Government's aid programme. Since 1969 it has been empowered to operate in non-Commonwealth as well as Commonwealth countries. The Corporation now operates in some 50 countries and is at present involved in some 230 projects. Its current investment programme includes 101 projects designed to assist over 400,000 small farmers. The projects embrace some 1·1 million hectares which have been planted with a wide range of tree crops, food and other annual crops, sugar cane, forestry and pastures for the production of meat and dairy products.

New Commitments

In recent years the main emphasis of new investment commitments has been placed upon the poorer group of countries, many of which are unable to attract private capital; during 1983 the Corporation intensified its efforts to promote and support productive and revenue-earning projects in these countries, particularly in those experiencing grave economic difficulties.

Over one-half of the value of the 29 new commitments was devoted to agricultural and natural resources projects and almost two-thirds went to the poorer countries. Spread over 17 countries in seven regions, they included such projects as the growing and processing of cocoa, palm oil, tea, macadamia nuts, rubber, wheat and maize for seed and milling; the production of fresh milk; and the manufacture of textiles, bricks and industrial gases. There was further support for local development banks and for the production of clean drinking-water, hydro-electricity and low-cost housing.

[1]*Commonwealth Development Corporation*: Report and Accounts 1983. HMSO, £4·50. ISBN 0 903799 16 2.

Among the new projects was the Corporation's first commitment in Vanuatu: a £3·4 million loan towards the development of a cocoa estate and processing factory on the island of Malekula involving the clearing and planting of 1,700 hectares of cocoa. The factory will also process produce from nearby farms. A second agricultural project, a coffee nucleus estate and outgrower project on Tanna Island, is being planned.

Investment was resumed in Uganda, where financing of over £5 million for the rehabilitation and modernisation of the tea and sugar industries was approved. Other investments in Africa included finance for the Gaborone water supply, treatment and distribution project in Botswana; for rubber plantations and processing in the Ivory Coast and Liberia; and for an irrigation scheme and a brickworks in Swaziland. In Kenya the Corporation is financing housing development; in the Seychelles it continues to be involved in hotel development. Other important projects include agricultural schemes in Tanzania, water pumping and treatment in Malawi, sugar, soya bean, wheat and maize production in Zambia, and the promotion, through the Zimbabwe Development Bank, of various development projects in Zimbabwe.

CDC Investments and Outstanding Commitments by Region at end-1983

£ million

Region	Invested	Outstanding commitment
Caribbean	69·0	47·6
Asia	119·0	76·3
Pacific Islands	52·1	25·2
East Africa	73·7	37·0
Central Africa	86·2	35·4
Southern Africa	62·3	13·2
West Africa	41·0	34·6
Other Areas	3·2	—
Total	506·5	269·3

In Central America and the Caribbean, CDC investments included finance for macadamia nut plantations and processing and a hydro-electric scheme in Costa Rica, and dairy farming in Jamaica.

A major CDC commitment in Asia was a £19 million loan for a nucleus estate and smallholder project for rubber and palm oil production in Indonesia, this forming part of the Government of Indonesia's smallholder development programme. A further £13 million went towards the construction of a storage dam and water-conductor system on the Citarum river in West Java, also in Indonesia, together with an underground power station and transmission line to link up with the Java grid. Investments in the Pacific included £3 million towards the expansion of cocoa and oil palm plantations in the Solomon Islands to ensure full utilisation of mill capacity. The project employs 1,450 people who are provided with housing, medical and welfare services.

Land Use Planning

The Corporation is becoming increasingly concerned with the development of land use planning in rural tropical areas where the pressure of population has led to overworking and impoverishment of the soil. As a result crop yields progressively decline and farmers move to unused areas which are not always suitable for annual crops, often felling forests to make way for subsistence farming. Once the protection of the forest has been removed, the steeper slopes quickly erode, the fertile valleys below are damaged by flooding in tropical rainstorms, and eventually the means of sustaining the growing population is destroyed. In addition, the destruction of vegetative cover, under high rainfall conditions, can have serious long-term environmental effects on rivers such as flooding, or, in dry periods, greatly reduced flows.

The Corporation, notes the report, has been able to offer solutions to these problems in several ways. Reafforestation schemes in Fiji, Jamaica, Swaziland and the Ivory Coast are conserving soils in upland areas, while in other countries tree crops such as oil palm and rubber which can exist on poorer soils and steeper slopes are used to replace the former forest. In the Philippines, the CDC has embarked on a number of studies as a prelude to the identification of a nucleus estate and outgrower project which would introduce selective tree crops into already de-forested hilly areas in northern Mindanao so as to bring them into lasting productive use while conserving soil fertility. The project would create employment opportunities and provide technical and practical help for surrounding independent subsistence farmers wishing to grow a cash crop to supplement their food crops, while associated processing and marketing facilities would ensure that the benefit of the development would accrue to the producer and not the middleman.

Co-financing

Over one-third of the Corporation's new commitments were undertaken in association with the World Bank or its affiliates, the International Development Association and the International Finance Corporation. Eight were in association with other members of Interact, a group of public institutions in the European Community concerned with investment in the developing world; the eight members of the group, including the CDC and the European Investment Bank, have entered into commitments in the developing countries averaging some £1,600 million annually in recent years. There was participation in many projects by governments or their agencies in host countries, regional and national development banks, commercial banks and other financial institutions, and private interests. Over 40 per cent of the new commitments were made to projects involving private enterprise partners, half of them sponsored by British companies. At the end of 1983, CDC was associated with British private sector companies in some 42 projects throughout the developing world and, in addition, a number of British companies were in partnership with development finance companies which CDC has co-financed, particularly in East and Central Africa.

Shorter Notes

FOOD AID

At the meeting of the Governing Body of the World Food Programme (WFP) in Rome in May, Britain pledged 50,000 tonnes of cereals – worth about £7·5 million – for use in 1984 on WFP-associated projects in developing countries. Britain also pledged a further 100,000 tonnes for use in similar projects in 1985 and 1986 (plus an additional cash contribution to cover transport and related costs) together with £1 million in cash; and 10,000 tonnes of cereals to the WFP-administered International Emergency Food Reserve for allocation in emergency situations. (At current prices 110,000 tonnes of cereals is estimated to cost about £16·5 million.) Additionally, Britain is giving cereal food aid directly to countries suffering shortages, current recipients including Ghana (17,000 tonnes), Mozambique (11,500 tonnes) and Zimbabwe (10,000 tonnes).

Britain provided food aid worth £84·5 million in 1982, of which £72·5 million was Britain's share of the European Communities food aid programme which provided food to 40 developing countries and a number of international organisations in that year. In addition, Britain provided 117,300 tonnes of cereals as part of the Community's obligations under the Food Aid Convention. Nearly half of this goes to the WFP, to which Britain also gave £3·4 million in 1982.

While some food aid is for emergency relief, for which it is essential, most is provided as free imports to the recipient country. This, in Britain's view, unless provided with care, can act as a disincentive to local food production, hinder necessary agricultural improvements, and create a demand for imports which did not previously exist (with consequent balance of payments problems). Within the Community, therefore, the British Government has urged the adoption of broader measures by Community and other aid donors to help developing countries improve their own agricultural production (see also pp 262–4, 1983).

Sources: Overseas Development Administration press notice, 31.5.84; and *British Overseas Aid 1982*. Overseas Development Administration, 1983. £4·95. ISBN 0 11 983609 2.

BRITISH AID: VOLUNTARY AGENCIES

Britain is to allocate £3·59 million for the Joint Funding Scheme in 1984–85, an increase of £1 million over the figure for 1983–84. Under the scheme the Government matches 'pound for pound' the costs of approved overseas development projects operated by British voluntary organisations. Announcing the grant on 18 May, the Minister for Overseas Development, Mr Timothy Raison, said it represented a very substantial real increase at a time of financial restraint and was a clear demonstration of Britain's continuing commitment to the overseas activities of voluntary agencies.

Among the agencies to benefit are Oxfam (£1·45 million), Christian Aid (£700,000), Save the Children Fund (£485,000) and the Catholic Fund for Overseas Development (£300,000). The balance will help finance overseas projects by a wide range of other British voluntary organisations.

Voluntary agency projects range from agricultural and health schemes to community development and non-formal education and are operated predominantly in rural (though sometimes urban) areas not always covered by official aid programmes and where help can be given directly to the poorest people. In 1983, 290 projects managed by 21 British agencies received support under the Joint Funding Scheme.

Earlier in 1984 the Government announced an increase in its funding for the British Volunteer Programme, to £5·9 million in 1984–85, £4·7 million of this going to Voluntary Service Overseas (VSO). Under the Programme VSO and three other independent voluntary organisations – International Voluntary Service, the Catholic Institute for International Relations and the United Nations Association International Service – receive from the Government 90 per cent of the costs they incur in recruiting, training and placing British volunteers in posts in developing countries. The volunteers, usually professionally qualified, spend up to two years overseas living on a subsistence salary among the communities they serve. In 1982 over 900 volunteers were serving abroad under the British Volunteer Programme in some 60 developing countries.

Source: Overseas Development Administration press notice, 18.5.84.

AID TO EGYPT

Britain agreed in May to allocate the balance, amounting to £39 million, of its £50 million grant, first committed in 1978, towards the cost of the Cairo Wastewater Project. The project aims to rehabilitate and expand the wastewater system for central Cairo to carry existing flows more efficiently and safely, to carry and treat the increased flows projected to the year 2010, and to reduce flooding and pollution. It will be a major contribution to the improvement of public health in the city, whose sewerage system was originally built between 1909 and 1914 and was last extended in 1930 to cope with a population of 1·5 million. The present population of Cairo numbers some 11 million, and the incidence in the city of water-borne diseases, notably cholera, typhoid and paratyphoid, is two to three times that for Egypt as a whole, while infant mortality is also significantly higher.

About £4·05 million of British funds has so far been spent on the design work, with a further £4·34 million committed for the same purpose. Civil construction work by British and Egyptian companies is to start later in 1984.

The British grant is supplemented by a £100 million loan, backed by the Export Credits Guarantee Department, which is being made available

by the bankers Samuel Montagu to finance other related contracts on the east bank of the Nile, the total cost of which is expected to amount to over £500 million.

The Cairo Wastewater Project is one of several projects in Egypt to benefit from British aid finance. They include the Abu Zabaal Fertiliser Company, where Britain has contributed £10 million on grant terms towards the cost of a superphosphate factory near Cairo. Under the Aid and Trade Provision (see pp 12-13) a £7·3 million agreement was signed in November 1982 to provide assistance to the West Sebaeya mining scheme which supplies phosphate for processing at Abu Zabaal.

In March 1983 a further aid and credit package agreement with the Egyptian Government was signed, under which British companies will carry out project work worth between £60 and £70 million. British companies are currently involved in the construction of a new advanced gas turbine power station at Mahmoudiya, the first stages of a contract for installing a natural gas system in Cairo, major construction contracts in Cairo and Luxor, and work on the Ahmed Hamdi tunnel under the Suez Canal.

Recent commitments in technical co-operation have included technician training at Moharrem Bey (Alexandria), craft training at El Zawia el Hamra (Cairo) and building construction training at Dar El Salam (Cairo). Under a 1979 £4·3 million commitment the Overseas Development Administration has contributed to a large World Bank population project, while substantial numbers of Egyptians continue to be trained in Britain.

Source: Overseas Development Administration press notice, 21.5.84.

ECONOMIC AND SCIENTIFIC AFFAIRS

London Economic Summit

A wide measure of agreement on basic economic objectives was reached at the London economic summit, which took place from 7 to 9 June. Specific aims in a ten-point plan for action included: the continued reduction in inflation and interest rates; the encouragement of measures to create new jobs; increased assistance to the developing countries; help for debtor countries to make the necessary adjustments; improvement of the international monetary system; and an acceleration of trade liberalisation programmes. The leaders at the summit issued separate declarations on democratic values, international terrorism and East–West relations, and a statement on the Iran–Iraq conflict.

ECONOMIC DECLARATION

The economic declaration issued at the end of the summit, attended by the heads of State and Government of Britain, Canada, France, the Federal Republic of Germany, Italy, Japan and the United States, together with representatives of the European Community, said that the participants had been able to achieve not only closer understanding of each other's positions and views but also a large measure of agreement on the basic objectives of their respective policies. At the last summit, in Williamsburg, United States, in 1983 (see pp 193-4, 1983) there had already been clear signs of recovery from the world recession. The recovery could now be seen to be established in the seven countries. It was more soundly based than previous recoveries in that it resulted from the firm efforts made in the summit countries and elsewhere over recent years to reduce inflation. However, its continuation required unremitting efforts. Opportunities to reinforce the basis for enduring growth and the creation of new jobs had to be fully exploited and the benefits of the recovery needed to be widely spread, both within the industrialised countries and also to the developing countries, especially the poorer countries which stood to gain more than any from a sustainable growth of the world economy. High interest rates, as well as failure to reduce inflation further and damp down inflationary expectations, could put the recovery at risk. Prudent monetary and budgetary policies of the kind that had brought the recovery so far would have to be sustained and, where necessary, strengthened. The participants reaffirmed the commitment of their governments to those objectives and policies.

A major concern was the growing strain of public expenditure in all seven countries. Public expenditure had to be kept within the limits of what the national economies could afford. The increasing attention being given to this problem by national governments and in international bodies such as the Organisation for Economic Co-operation and Development (OECD) was welcomed.

With unemployment remaining high, the participants emphasised the need for sustained growth and the creation of new jobs. It was necessary to make sure that the industrialised economies adapted and developed in response to demand and to technological change. Active job training policies and the removal of labour market rigidities had to be encouraged and the conditions for lasting jobs (especially for young people) created. The international trading system had to be fostered and expanded and capital markets liberalised.

The leaders, who were mindful of the concerns expressed by the developing countries and the political and economic difficulties which many of them faced, recognised the economic interdependence of the industrialised and developing countries. They reaffirmed their willingness to conduct relations with these countries in a spirit of goodwill and co-operation. To this end, the ministers of finance had been asked to consider the scope for intensified discussion of international financial issues of particular concern to developing countries in the Development Committee of the International Bank for Reconstruction and Development (IBRD), 'an appropriate and broadly representative forum for this purpose'.

In the strategy for dealing with the debt burdens of many developing countries, a key role had been played by the International Monetary Fund (IMF), the resources of which had been strengthened for the purpose. Debtor countries had been increasingly ready to accept the need to adjust their economic policies despite the painful and courageous efforts required. In a climate of world recovery and growing world trade, this strategy should continue to enable the international financial system to manage the problems that might still arise. 'But continuously high or even further growing levels of international inter-

est rates could both exacerbate the problems of the debtor countries and make it more difficult to sustain the strategy. This underlines the importance of policies which will be conducive to lower interest rates and which take account of the impact of our policies upon other countries.'

Policies for Action

Agreement had been reached in ten main areas:

1 Policies to reduce inflation and interest rates, to control monetary growth and, where necessary, to reduce budgetary deficits would be continued and, where appropriate, strengthened.

2 Ways of reducing obstacles to the creation of new jobs would be sought. This would be by: encouraging the development of industries and services in response to demand and technological change, including innovative small and medium-sized businesses; encouraging the efficient working of the labour market; encouraging the improvement and extension of job training; encouraging flexibility in the patterns of working time; and discouraging measures to preserve obsolescent production and technology.

3 There would be support for the work of the appropriate international organisations, notably the OECD, on increasing understanding of the sources and patterns of economic change and on improving economic efficiency and promoting growth (particularly by encouraging innovation and working for a more widespread acceptance of technological change, harmonising standards and facilitating the mobility of labour and capital).

4 Flows of resources, including official development assistance and assistance through the international financial and development institutions, to the developing countries and, particularly, to the poorest countries would be maintained and, where possible, increased. The industrialised countries would work with the developing countries to encourage more openness towards private investment flows and would encourage practical measures there to conserve resources and enhance indigenous food and energy production. Some of the participants also wished to activate a Common Fund for Commodities (see pp 240-1, 1980).

5 The strategy on the international debt problem would be confirmed and developed flexibly case by case. Particular importance would be attached to: helping debtor countries to make the necessary changes in economic and financial policies, taking into account political and social difficulties; encouraging the IMF in its central role in this process, which it had been carrying out skilfully; encouraging closer co-operation between the IMF and the IBRD and strengthening the role of the IBRD in fostering development over the medium and long term; in cases where debtor countries were themselves making successful efforts to improve their position, encouraging more extended rescheduling of commercial debts and standing ready where appropriate to negotiate similarly over debts to government agencies; encouraging the flow of long-term direct investment (just as there was a need for industrialised countries to make their markets more open for the exports of developing countries, so these countries could help themselves by encouraging investment from the industrialised countries); and encouraging the substitution of more stable long-term finance for short-term bank lending.

6 Finance ministers would be asked to carry forward, 'in an urgent and thorough manner', their current work on ways to improve the operation of the international monetary system (including exchange rates, surveillance, the creation, control and distribution of international liquidity, and the role of the IMF) and to complete the present phase of their work in the first half of 1985 with a view to discussion at an early meeting of the IMF Interim Committee. The question of a further allocation of Special Drawing Rights would be reconsidered by the IMF Interim Committee in September.

7 The procedures agreed at the summits at Versailles (see pp 201-3, 1982) and Williamsburg for multilateral monitoring and surveillance of convergence of economic performance towards lower inflation and higher growth would be carried forward.

8 Ways of improving the operation and stability of the international financial system, by means of prudent policies among the major countries, by providing an adequate flow of funding to the international financial institutions and by improving international access to capital markets in industrialised countries would be sought.

9 All trading countries, industrialised and developing alike, would be urged to resist continuing protectionist pressures, to reduce barriers to trade and to make renewed efforts to liberalise and expand international trade in manufactures, commodities and services.

10 The completion of current trade liberalisation programmes, particularly the 1982 programme of the General Agreement on Tariffs and Trade (GATT), would be accelerated in co-operation with other trading partners. The work on trade in services in the international organisations would be carried forward and the agreement reached at the OECD ministerial meeting in May on the important contribution which a new round of multilateral trade negotiations would make to strengthening the open multilateral trading system for the mutual benefit of all economies, industrialised and developing, would be reaffirmed. Building on this programme, partners in the GATT would be consulted with a view to arriving at early decisions on the possible objectives, arrangements and timing for a new negotiating round.

International Issues

In a brief reference to international issues, the leaders expressed concern over poverty and drought in parts of Africa and the possible implications of the Iran–Iraq conflict (see p 220) on oil supplies. They also noted with approval the continuing consensus on relations with Eastern countries (see p 219).

Technology, Growth and Employment

The participants welcomed the further report of

the working group on technology, growth and employment created at the Versailles economic summit (see p 202, 1982) and the progress made in the 18 areas of co-operation, and invited the group to pursue further work and to report in time for the 1985 summit. They also welcomed the invitation of the Italian Government to an international conference to be held in Italy in 1985 on technological innovation and the creation of new jobs.

The Environment

The leaders recognised the international dimension of environmental problems and the role of environmental factors in economic development. They had invited ministers responsible for environmental policies to identify areas for continuing co-operation in this field. In addition, they had decided to invite the working group on technology, growth and employment to consider what had been done so far and to identify specific areas for research on the causes, effects and means of limiting environmental pollution of air, water and ground where existing knowledge was inadequate, and to identify possible projects for industrial co-operation to develop cost-effective techniques to reduce environmental damage. The group was invited to report by the end of 1984. In the meantime they welcomed the invitation of the Government of the Federal Republic of Germany to certain summit countries to an international conference on the environment in Munich on 24 to 27 June.

DECLARATION ON DEMOCRATIC VALUES

On 8 June the heads of State and Government agreed a Declaration on Democratic Values reaffirming their belief in the rule of law and in a system of democracy which ensured genuine choice in free elections, the free expression of opinion and the capacity to respond and adapt to change. The declaration continued: 'We believe that, in the political and economic systems of our democracies, it is for governments to set conditions in which there can be the greatest possible range and freedom of choice and personal initiative, in which the ideals of social justice, obligations and rights can be pursued; in which enterprise can flourish and employment opportunities can be available for all; in which all have equal opportunities of sharing in the benefits of growth and there is support for those who suffer or are in need; in which the lives of all can be enriched by the fruits of innovation, imagination and scientific discovery; and in which there can be confidence in the soundness of the currency.' The leaders also stressed their belief in their close partnership in the conviction that this would reinforce political stability and economic growth in the world and looked for co-operation with all countries 'on the basis of respect for their independence and territorial integrity, regardless of differences between political, economic and social systems'. They also reaffirmed their respect for genuine non-alignment and their determination to fight hunger and poverty throughout the world.

Turning to the issue of world peace, heads of State and Government said that there was a need for peace with freedom and justice. 'Each of us rejects the use of force as a means of settling disputes. Each of us will maintain only the military strength necessary to deter aggression and to meet our responsibilities for effective defence. We believe that in today's world the independence of each of our countries is of concern to us all. We are convinced that international problems and conflicts can and must be resolved through reasoned dialogue and negotiation and we shall support all efforts to this end.'

INTERNATIONAL TERRORISM

The declaration on international terrorism pointed out that, although hijacking and kidnapping had declined since the summit declarations at Bonn in 1978 (see p 296, 1978), at Venice in 1980 (see p 216, 1980) and at Ottawa in 1981 (see p 228, 1981), other techniques had been developed by terrorists, sometimes in association with traffic in drugs. The heads of State and Government resolved to combat this threat by every possible means, by strengthening existing measures and developing effective new ones.

Concern was expressed at the ease with which terrorists moved across international boundaries and gained access to weapons, explosives, training and finance, and particularly at the increasing involvement of states and governments in acts of terrorism, including the abuse of diplomatic immunity. The leaders acknowledged the inviolability of diplomatic missions and other requirements of international law, but emphasised the obligations which that law also entailed.

The declaration then referred to proposals which had found support in the discussions. These were: closer co-operation and co-ordination between police and security organisations and other relevant authorities, especially in the exchange of information, intelligence and technical knowledge; scrutiny by each country of gaps in its national legislation which might be exploited by terrorists; the use of powers under the Vienna Convention (see p 163) in such matters as the size of diplomatic missions and the numbers of buildings enjoying diplomatic immunity; action by each country to review the sale of weapons to states supporting terrorism; consultation and, as far as possible, co-operation over the expulsion or exclusion from their countries of known terrorists, including persons of diplomatic status involved in terrorism.

While recognising that international terrorism was a problem which affected all civilised states, the heads of State and Government agreed to promote action through competent international organisations and among the international community as a whole to prevent and punish terrorist acts (see p 211).

EAST–WEST RELATIONS

Stressing the need for solidarity and resolve, the leaders said that they were determined to pursue the search for extended political dialogue and

long-term co-operation with the Soviet Union and its allies. Their aim was security and the lowest possible level of forces, and they wished to see early and positive results in the various arms control negotiations and the speedy resumption of those now suspended. The United States had offered to restart nuclear arms control talks without preconditions and the participants hoped that the Soviet Union would act in a constructive and positive way. 'We are in favour of agreements which would build confidence and give concrete expression, through precise commitments, to the principle of the non-use of force.'

In conclusion heads of State and Government stated that East and West had common interests in preserving peace, enhancing confidence and security, reducing the risks of surprise attack or war by accident, improving crisis management techniques and preventing the spread of nuclear weapons.

IRAN–IRAQ CONFLICT

In their statement on the Iran-Iraq conflict the leaders expressed their deep concern at the mounting toll in human suffering and physical damage brought by the conflict, and at breaches of international humanitarian law. 'The hope and desire of us all is that both sides will cease their attacks on each other and on the shipping of other states. The principle of freedom of navigation must be respected. We are concerned that the conflict should not spread further and we shall do what we can to encourage stability in the region.' They said that they would support any efforts designed to encourage the parties to seek a peaceful and honourable settlement, particularly those of the United Nations Secretary General (see p 212).

On the implications of the conflict for world oil supplies, it was considered that the international system had both the will and capacity to cope with any foreseeable problems through the continuation of the prudent and realistic approach already being applied.

The Economy

The Government's success in defeating inflation, easing the tax burden and the government load on business, restoring profitability and improving the pay determination system were all discussed by the Chancellor of the Exchequer, Mr Nigel Lawson, in a speech on 23 May. He pointed to the 'particularly brisk' increase in capital investment, the improvement in productivity (especially in manufacturing), the growing efficiency of nationalised industries and the freer and more competitive environment for business. The 1984 Budget changes would make Britain an increasingly attractive country in which to work and invest.

The Chancellor, who was addressing the annual dinner of the Confederation of British Industry (CBI) in London, reminded his audience that inflation was firmly under control while monetary growth remained within the target ranges set at the time of the 1983 Budget (see p 131, 1983). There were bound to be fluctuations in monetary behaviour during the course of the year if only because the pattern of government spending and receipts was such that the public sector borrowing requirement (PSBR) was usually much higher in the first half of the financial year than in the second. In 1984-85 the imbalance was likely to be even more pronounced than usual with almost the entire PSBR occurring within the first six months; however, the growth of sterling M3 (money in circulation and the sterling bank deposits of British residents), after seasonal adjustment, would be smoother than this.

The effective exchange rate for sterling had remained reasonably steady while the low level of public sector borrowing meant that the fairly rapid growth in private sector credit (which was to be expected during an economic upturn) could be accommodated.

The recovery was continuing at a healthy pace with capital investment increasing particularly briskly; the Government's forecast of a 3 per cent rate of growth in 1984 was now generally accepted. Unemployment was still, three years since the start of the recovery, 'stubbornly high' but the rate of growth since the 1981 trough was little different from the average in the last three cycles. Moreover, there were signs that the upturn still had a good deal further to go.

Inflation remained low, in sharp contrast to the experience in previous recoveries when a rising rate of inflation had often been instrumental in bringing the recovery to an end. 'It is the favourable prospect for inflation today that provides the strongest basis for expecting the recovery to continue.'

Even the recent rise in interest rates had to be seen in perspective. British interest rates were lower than a year ago and were now more than two percentage points lower than comparable rates in the United States. Nevertheless, the increase was a sign that Britain did 'not propose to make the mistake that has so often been made in the past at this stage, to give in to the temptation to relax, to take things easy, to ease up on the battle against inflation. On the contrary, we remain firmly committed to the ultimate objective of stable prices.'

Public Spending and Taxation

Mr Lawson went on to stress the importance of firm control of public expenditure. It was central to the task of reducing government borrowing and maintaining the downward path of inflation; central to the Government's chances of reducing taxes; central to its drive to stimulate initiative, incentives and sustained growth; and central to its determination to halt the steady encroachment of the public sector on the rest of the economy.

Since the introduction of cash planning for public expenditure in 1982 (see p 123, 1982) the Government had kept its spending within the specified limits. From its peak in 1982-83 public spending had gradually begun to fall as a share of

gross domestic product. 'That decline will continue.'

No category of public expenditure – even capital expenditure – could be immune from the constant search for savings and value for money. Capital spending was not 'intrinsically virtuous'; current spending on repairing infrastructure might provide the required quality of services – and at lower cost – than building from scratch.

The Supply Side

Every opportunity had to be taken 'to oil the creaking joints of the economy'. The privatisation programme (see pp 234-5, 1983) was now returning important sectors of the economy to the discipline of the market while the remaining nationalised industries were becoming more efficient.

Monopoly was being reduced wherever possible while the Government's employment legislation and competition policies were providing a freer and more competitive environment for business. The Government had abolished regulations and controls, reduced or removed subsidies and started to tackle the distortions created by the tax system.

The tax strategy announced in the Budget (see pp 121-2) was an important part of this process. Poor returns on investment had been at the heart of Britain's problems. The pre-tax rate of return on fixed capital in manufacturing in Britain had been consistently lower than in competing countries – only one-third of that in the United States, for example. The problem was not, in general, that British investment was at too low a level but that it was not of the right quality. In Britain the amount of output per unit of capital had been consistently less than in the United States, the Federal Republic of Germany and Japan; there were many reasons for this but a contributory factor was undoubtedly a tax regime which subsidised and encouraged projects with low pre-tax rates of return.

The changes in corporation tax and the abolition of the National Insurance surcharge (NIS), announced in the Budget (see p 122), would discourage the substitution of capital for labour except in cases where this was genuinely economic. But, even more important, they would encourage the search for investment of a higher quality with higher pre-tax rates of return and increase the attractiveness of share issues relative to bank borrowing. By 1987, when the transition to the system would be complete, Britain's rates of capital allowance would still be broadly comparable to those in most other countries but the rate of tax on company profits would be lower than in any of its main competitors. The 1984 Budget changes would make Britain an increasingly attractive country in which to work and invest.

Profits

A free-enterprise economy would succeed, the Chancellor went on, only by encouraging profits and rewarding them properly. As the poor profitability of so much of British industry had been a major problem, he was greatly encouraged by the sharply improved financial position of the company sector – the outstanding feature of the recovery so far. Gross trading profits of industrial and commercial companies had increased by over 40 per cent between 1981 and 1983 and were still rising. Retained profits had been increasing even more sharply while company liquidity had improved substantially. The CBI was expecting real rates of return in industry to reach 8 per cent this year. Higher profits provided the basis for greater investment and new jobs. Profits needed to be still higher; even now they had not yet recovered the levels of the late 1960s although the trend was firmly in the right direction.

Productivity

Higher profitability reflected the success of British industry in adapting and responding to the challenges of the world recession. In particular, it pointed to the achievements in productivity, especially in manufacturing. Over the past two years output per head in manufacturing had been rising at an unprecedented 6 per cent a year with little sign of any slackening. These increases might, in the short run, augur ill for jobs but, in the long run, were the only way of ensuring faster growth, lower costs and more jobs.

Conclusion

Mr Lawson reminded his audience that, at the time of its first annual conference, in 1977, the CBI had set out what it saw as the five major objectives for government. He felt that the Government had achieved all of them. First, it had, to all intents and purposes, defeated inflation. Secondly, it had cut taxes – it had reduced high marginal rates of income tax and had abolished the investment income surcharge (see p 123) as well as the NIS. Thirdly, it had eased the government load on business; in addition to the tax measures (with the abolition of the NIS alone worth £3,000 million a year to British industry), it had abolished controls on pay, prices (see pp 162-3, 1979), dividends (see p 196, 1979), hire purchase (see p 274, 1982), bank lending, foreign exchange transactions (see p 162, 1980) and industrial development (see p 28, 1982), and had reduced the size of the Civil Service to its smallest since 1945 (see p 87). Fourthly, it had presided over dramatic improvements in profitability. Finally, it had done as much as any government could to reform the system of pay determination; the consistent pursuit of firm financial policies had made it clear that the Government would not underwrite excessive pay claims.

It was now the task of British industry to take advantage of the economic recovery to respond to the opportunities presented by the radical changes in the fundamental economic climate which the Government had brought about.

The Stock Exchange

A number of leading figures and practitioners from the City of London are to advise the

Governor of the Bank of England, Mr Robin Leigh-Pemberton, on the structure and operation of self-regulatory groupings that could be formed in the near future in the Stock Exchange. Mr Martin Jacomb is chairman of the advisory group which includes the Stock Exchange chairman, Sir Nicholas Goodison.

Mr Leigh-Pemberton announced that he was establishing this group during a speech to the Stock Exchange Northern Unit conference in Liverpool on 23 May. Earlier in his address, he had referred to the rapid development of thinking and the inauguration of a process of far-reaching structural change that had taken place between the announcement in July 1983 by the Government of the planned exclusion of the Stock Exchange from the Restrictive Trade Practices Act 1976 (see pp 275 and 434-6, 1983) and the publication in April 1984 of a discussion paper by the Stock Exchange (see p 179) outlining possible new trading systems and other changes in its rules flowing from the decision to abolish stockbrokers' minimum commissions.[1]

Negotiated Commissions

It had been hoped, before the Government's announcement, that there could have been a gradual shift towards negotiated commissions; once the proposal had become open to public debate, however, it had been clear that this was not going to be practicable, especially as the view that a new trading system should be introduced at the same time as negotiated commissions began to gain strength. Another body of opinion had favoured the retention of the jobbing system, despite the advent of negotiated commissions, so long as the Bank of England formally sanctioned its preservation. Mr Leigh-Pemberton said that the Bank had been unable to do this as it did not wish to replace the judgment of the Restrictive Practices Court by an edict of its own, nor had it been certain about retaining jobbing as the sole trading system at all costs or in all circumstances. While the jobbing system and separation of capacity arguably provided the best possible mechanism for a domestic securities system – liquidity was assured and the investor protected – the 'realities of the outside world' had to be considered. 'The inescapable fact is that securities trading is now an international activity and if we in this country wish to play any significant role in the world securities market, we must be equipped to compete. There must, however, be doubts over our ability fully to meet international competition, if our central market for securities conducts its trading in a way which is unique to this country and which thereby may handicap its members in regard to its non-member competitors at home and overseas.' The mounting pressure of international competition would by itself eventually have brought about the demise of the jobbing system as the exclusive or principal trading system even if there had been no agreement to abolish minimum commissions. The Council of the Stock Exchange had concluded, anyway, that the existing dealing system would not be sustainable once commissions were negotiable.

The Bank of England did not wish to impose a new trading system; the new system should, rather, be proposed by the financial services market itself and emerge from a consensus reached after full debate. The future arrangements would, however, have to offer maximum liquidity and investor protection and enable the Stock Exchange to play a full part in a vigorous, competitive British securities industry and to gain a significantly larger share of the total world market. As long as these objectives were met, the Bank remained open-minded about the precise structure of the dealing system. After having held intensive discussions with member firms, the Bank now had a clear idea about the nature of the future government securities market (the 'gilt-edged' market); on the other hand, the market in company shares ('equities') required much more difficult judgments to be made.

The Company Shares Market

The Bank was convinced that a central market, one in which all orders were able to interact, offered the maximum degree of liquidity. The ability to deal continuously in reasonable size was an important attribute of liquidity which suggested the need for committed market makers (price setters) ready to make continuous prices and trade in adverse as well as favourable conditions. Those who undertook this hazardous role would need adequate compensation which in turn might well lead to a problem of reconciling liquidity and investor protection. The two objectives were not necessarily inconsistent: a more liquid market was likely to be a more competitive one and competition itself provided significant protection to the investor. The debate in progress on these questions should be vigorous in order to help to bring about eventually a trading system in the equity market that was technically operable and capable of supplying members with the opportunity to conduct business profitably.

The Government Securities Market

As with the future company shares market, the Bank wanted to see maximum liquidity and suitable investor protection for the gilt-edged market; the new structure outlined in the Stock Exchange's discussion document provided an appropriate basis for achieving these objectives. The Bank would develop with the Stock Exchange the structural features of the market in more detail, including a commitment from market makers to provide continuous two-way prices and a capital base appropriate to the intended scale of operations in the gilt-edged market. The Bank would expect to monitor compliance with such conditions and to exercise close and continuous supervision over the activities and financial condition of the market makers. The number of member firms and of institutions not yet members which had

[1]Stockbrokers are agents for investors in buying and selling securities, and charge a commission for their services at or above agreed minimum rates. They deal with jobbers who act as principals, seeking to make a profit on dealing in securities in which they specialise. Jobbers deal with brokers and not directly with investors. The system provides 'separation of capacity' or 'single capacity' in contrast to the 'dual capacity' system in other countries.

expressed serious interest in participating in a restructured market on this basis suggested that ample liquidity should be generated. Moreover, the prospective level of competition promised a high rate of market efficiency. The needs of small investors would have to be properly catered for and adequate arrangements made for investor protection.

It was implicit in this model that some potential market makers, not at present members of the Stock Exchange, should be able to participate. Nevertheless, the Bank favoured retention of the gilt-edged market within the administrative and regulatory framework of the Stock Exchange, with competing outside institutions, both British and overseas, being brought into the system, although this did not mean that dealing would necessarily have to take place only on the floor of the Exchange. Even so, the Stock Exchange would remain the central market only if it offered the best prices and service; the Governor had no doubts about its capacity to do so.

The Pace of Change

Some observers, inside and outside the Stock Exchange, had expressed unease about the pace of change, but none of the changes within the Stock Exchange that had been implemented so far had been excessive or insufficiently considered. The two most important had been the addition of lay members to the Council (generally agreed to be beneficial) and the decision to allow the formation of international dealers, the product of ideas debated for more than a decade. What had perhaps contributed most to the impression of constant change had been the number of participations taken in member firms by outside institutions; most of these had been announced since the agreement of the Stock Exchanges with the Government, although the rules which made them possible had been in place long before. Many of the associations being formed represented British groupings backed by substantial capital resources ready to take up the competitive challenge. This development constituted a resounding vote of confidence in the Stock Exchange, particularly by people currently outside it.

There was anxiety that the Stock Exchange would in future consist of only a relatively few very large member firms, sharing all available business between them; this seemed to Mr Leigh-Pemberton an extremely unlikely outcome. The British securities industry had always been characterised by a wide diversity of needs and interests, many of which had become the specialisations of smaller member firms. He did not believe that this diversity would be reduced or that large firms would invariably be able tc, or wish to, satisfy specialised requirements as successfully as existing smaller firms. The provincial and country members had a particular strength in this respect, in that they knew far better how to service the needs of the local communities in which they operated than any outsider could ever hope to. Most importantly, it was to be strongly emphasised that, if the Stock Exchange adopted a form of dual capacity, it would be permissive and not compulsory. There would always be a need for the member firm which carried on agency business only.

Many complex issues still needed to be resolved, such as the questions of trading structure and membership already discussed, and until concrete and detailed decisions had been taken on those matters, only limited progress could be made in providing the appropriate technological infrastructure, without which an efficient trading system would be impossible.

Conflicts of Interest

In addition to the structural and technological questions, there was a range of regulatory matters of direct interest to the Stock Exchange but outside its sphere of competence, particularly those concerning conflicts of interest, which required attention. The principal dangers became evident if one postulated the formation of financial groups that would be able to act as issuing house, market maker, investment manager and broker. In the market for most domestic securities, such conflicts of interest had hitherto either been avoided or existed in a limited form only. Whatever solutions were reached, it was essential that the means by which abuse was to be avoided should be made public and conform to an agreed minimum standard.

Where conflicts of interest occurred within Stock Exchange member firms, ultimate responsibility for protecting the client rested with the Stock Exchange; various forms of exposure and disclosure constituted some of the best possible means of providing that protection. Other forms involved differing degrees of separation of the activities which gave rise to conflicts of interest, such as between principal and agent activities in a broker dealer. The circumstances in which a broking arm could place agency business with an arm dealing as principal must be clearly defined. Doubtless, a mixture of exposure, disclosure and separation would provide the eventual solution to conflicts of interest within member firms; whatever was decided would affect the fundamental design of the new trading system.

The Governor was certain that if Stock Exchange members were allowed to act as both principals and investment managers within the same firm, a barrier would need to be erected between the two functions and it would be for the financial services industry as a whole to convince the public that this would protect the client adequately. Beyond this, the Stock Exchange would undoubtedly continue to protect the investor in many other ways, ranging from the imposition of listing requirements to the provision of compensation arrangements. The capacity of the Stock Exchange effectively to regulate its members would be greater if, as proposed in its discussion document, member firms were required to be constituted as separate entities, even when wholly owned by non-members. Of course, such a requirement could not by itself solve all regulatory problems. The Stock Exchange would find it relatively straightforward to cope with conflicts of interest arising between two firms of a group where one was a broker dealer and the other a non-member investment management company.

The solution would, however, be less straightforward if the group were a highly-diversified financial services group with a network throughout the world and the member firm only a minor component part. The Stock Exchange, even in this case, could doubtless exercise a limited influence, but it would be unreasonable to suppose that it could undertake sole responsibility for the regulation of all conflicts of interest where it had direct jurisdiction over only one end. Clearly, potential conflicts of interest extended into many parts of the financial services industry where there might be no Stock Exchange involvement at all. Emerging conflicts of interest, then, represented a problem for the entire financial services sector and a challenge for the whole regulatory system.

The Advisory Group

There were many uncertainties regarding a practicable self-regulatory structure for the future and time was running short. If the opportunity to develop a more vigorous and competitive British securities industry were to be fully exploited, users of British markets, including those overseas, must be assured that the trading arrangements were fairly and reasonably, though not intrusively, regulated. A general, if not universal, belief existed in the advantage of significant practitioner involvement in the regulatory process, with this being channelled through some structure of self-regulatory groupings, but provision for suitable oversight of the activities of these bodies was a very difficult and important issue. The relationship between the overall co-ordinating body and the Stock Exchange also had to be carefully considered.

The Stock Exchange had long been a significant contributor to the wider framework of self-regulation,[1] an area where the City had an enviable record. Mr Leigh-Pemberton had decided, therefore, to constitute a group of senior City figures and practitioners to advise him, within three months, on the structure and operation of the self-regulatory groupings which would most appropriately cover all types of securities activity together with commodity and financial futures and which could be formed in the near future. Mr Martin Jacomb, a vice-chairman of Kleinwort Benson (merchant bankers), had agreed to act as chairman of the group and the chairman of the Stock Exchange, Sir Nicholas Goodison, was among those serving under him. The group's advice should be formulated on the basis of what its members, by virtue of their respective positions in the City, deemed to be capable of implementation; the advice would, of course, not be binding. The Council of the Stock Exchange had agreed to assist the group. Mr Leigh-Pemberton hoped that the advice which he would receive would provide the way forward to strengthening the regulatory structure in the securities area in a way that would command respect and confidence at home and overseas.

[1]Recommendations by Professor L. C. B. Gower on a new regulatory system for dealers in securities, investment consultants and managers were published in a White Paper in January (*Review of Investor Protection* – see p 58) and are under consideration by the Department of Trade and Industry.

Overseas Direct Investment by Companies

Net direct investment in Britain from overseas almost trebled in 1983 to a total of over £3,000 million. Britain's outward net direct investment, at £2,400 million, was slightly less than in 1982. The United States is by far Britain's largest overseas investment partner.

Provisional figures for 1983 (see Table 1) show a small rise in Britain's net earnings from overseas direct investment, to £3,200 million, while other countries' net earnings from direct investment in Britain of over £3,000 million represented an increase of nearly one-half. These findings are from the Department of Trade and Industry's inquiry into annual flows of British direct investment overseas[1] and inward direct investment in Britain, published in the 18 May issue of *British business*. Oil companies are excluded from the inquiry. As only provisional figures are available for 1983, this article deals with the more detailed analysis for 1982.

Trends in Direct Investment

There have been large movements in the levels of both inward and outward direct investment in the past decade. Inflation and the fluctuating sterling exchange rate have influenced these movements, though to what extent is difficult to measure as direct investment consists of transactions in financial assets for which no suitable price indices are available. However, an indication of the underlying trend can be obtained by comparing flows of direct investment with British gross domestic product (GDP).

As a proportion of GDP, net British outward direct investment was about 0·75 per cent in the mid-1960s, growing to a peak of 2·25 per cent in 1973 before falling back as economic activity declined in the wake of oil price rises (see p 441, 1973, and p 198, 1979). By the end of the 1970s the ratio had dropped to about 1·7 per cent. Another peak in 1981, almost at the 1973 level, resulted from a combination of factors: a reduction in the real value of GDP in Britain; the prospect of good returns in the large and sophisticated United States market; and a strong sterling exchange rate, particularly against the United States dollar, which lowered the sterling cost of dollar assets. The amount of British direct investment in the United States showed substantial growth between 1977 and 1981 while investment in the world as a whole increased considerably from 1979 to 1981 (and should in time produce corresponding increases in income). Investment in the European Community reached its highest level in 1973 and has been on a declining trend ever since.

Net direct investment in Britain by overseas non-oil companies as a proportion of GDP has risen more slowly than outward investment – from an average of about 0·5 per cent in the mid-

[1]Direct investment overseas consists of long- and short-term funds given by an investor in one country to overseas affiliates (subsidiaries, associates and branches) in the form of share capital, loans, trade credit and retained profits. It is measured net after deducting loans made by the affiliates to their direct investors.

Table 1

Net Direct Overseas Investment and Earnings

£ million

	1978	1979	1980	1981	1982	1983*
Outward direct investment overseas						
Net investment	2,710	3,035	3,317	5,153	2,528	2,410
Net earnings	2,347	2,843	2,924	3,555	3,113	3,220
Inward direct investment in Britain						
Net investment	1,261	1,740	2,541	998	1,076	3,144
Net earnings	1,527	2,077	1,873	1,964	2,152	3,005

*Provisional.

Table 2

Net Outward Direct Investment Overseas Analysed by Area

£ million

	1978	1979	1980	1981	1982
Western Europe	**853·5**	**255·4**	**376·5**	**643·4**	**214·2**
European Community	584·8	228·2	365·2	591·9	40·3
Belgium and Luxembourg	38·4	5·7	−11·0	−15·3	−4·9
Denmark	14·9	5·0	20·5	1·8	3·4
France	69·8	89·1	126·8	129·7	61·8
Federal Republic of Germany	111·7	9·5	370·6	194·1	70·7
Greece	4·9	4·2	−0·3	5·2	6·3
Irish Republic	168·7	62·3	63·8	75·9	55·9
Italy	47·1	64·7	49·0	76·7	22·9
Netherlands	129·3	−12·3	−254·2	123·8	−175·7
European Free Trade Association*	215·5	−17·1	−36·0	−12·4	90·4
Austria	17·8	*na*	−6·1	3·9	—
Finland	*na*	9·5	2·0	4·2	−2·7
Norway	2·7	*na*	*na*	11·7	*na*
Portugal	5·8	10·3	10·6	19·7	11·4
Sweden	13·3	18·7	2·1	5·3	−2·7
Switzerland	171·9	−60·9	−39·4	−57·2	89·0
Other Western Europe	53·2	44·4	47·3	63·9	83·5
North America	**1,099·8**	**1,832·6**	**1,860·8**	**2,766·6**	**1,555·6**
Canada	138·1	220·8	148·5	255·7	58·7
United States	961·7	1,611·8	1,712·4	2,510·9	1,496·8
Other developed countries	**316·1**	**311·8**	**444·4**	**711·6**	**426·8**
Australia	171·4	199·9	166·5	362·9	176·9
Japan	32·0	38·9	14·7	17·2	13·7
New Zealand	27·2	24·1	30·9	39·9	8·5
South Africa	85·5	48·8	232·3	291·6	227·7
Rest of the world	**440·3**	**634·8**	**634·9**	**1,031·0**	**331·8**
Africa	133·0	160·0	183·1	267·9	262·2
Middle East	64·6	40·6	25·1	8·3	43·1
Other Asia	24·5	153·2	144·9	440·4	−288·0
Caribbean, Central and South America	207·8	298·1	293·8	301·9	316·9
Other	10·4	−17·2	−12·0	12·4	−2·4
World	**2,709·7**	**3,034·6**	**3,316·7**	**5,152·6**	**2,528·3**
Commonwealth	621·7	898·6	808·6	1,389·8	285·5
Developing countries	440·3	634·8	634·9	1,031·0	331·8
Oil-exporting countries†	152·1	81·3	123·3	121·5	187·7

*Including Iceland.
†Bahrain, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates and Venezuela.
na = not available.

Table 3

Net Earnings from Outward Direct Investment Overseas Analysed by Area

£ million

	1978	1979	1980	1981	1982
Western Europe	**602·4**	**640·1**	**579·1**	**509·5**	**516·7**
European Community	449·5	500·8	363·7	350·3	308·7
Belgium and Luxembourg	67·7	53·2	42·8	34·9	28·3
Denmark	16·1	10·9	14·5	11·3	3·9
France	40·9	73·5	67·4	61·3	43·4
Federal Republic of Germany	154·0	162·5	124·5	73·2	86·1
Greece	1·9	2·6	3·2	2·5	5·2
Irish Republic	86·0	96·4	81·7	107·3	94·0
Italy	40·4	44·4	45·8	34·2	35·8
Netherlands	42·6	57·2	–16·1	25·5	12·1
European Free Trade Association*	136·0	114·2	119·0	134·8	135·3
Austria	27·0	10·7	10·9	11·1	4·7
Finland	5·1	7·0	4·9	5·3	3·7
Norway	3·4	*na*	*na*	5·9	2·5
Portugal	*na*	13·4	16·6	17·3	16·8
Sweden	13·0	13·7	17·7	13·4	12·7
Switzerland	81·2	65·7	66·4	81·9	94·9
Other Western Europe	16·8	25·1	31·4	54·5	72·6
North America	**600·5**	**1,773·8**	**760·9**	**1,024·5**	**708·6**
Canada	161·2	206·6	196·5	191·9	163·9
United States	439·3	567·2	564·4	832·6	544·8
Other developed countries	**521·3**	**658·5**	**751·9**	**839·3**	**730·7**
Australia	226·2	254·3	277·2	318·1	253·6
Japan	30·4	37·2	20·9	18·0	21·9
New Zealand	33·4	32·2	32·7	38·4	44·1
South Africa	231·4	334·7	421·1	464·8	411·0
Rest of the world	**622·3**	**770·7**	**897·3**	**1,151·5**	**1,157·3**
Africa	183·8	203·6	267·0	267·7	260·9
Middle East	55·4	70·1	60·8	76·6	118·2
Other Asia	220·2	309·4	329·5	405·6	404·8
Caribbean, Central and South America	143·5	174·6	226·8	372·9	328·7
Other	19·3	13·0	13·1	28·7	44·6
World	**2,346·5**	**2,843·1**	**2,924·3**	**3,554·9**	**3,113·3**
Commonwealth	838·3	1,002·7	1,115·7	1,266·9	1,154·6
Developing countries	622·1	770·4	897·1	1,151·4	1,157·3
Oil-exporting countries†	145·4	157·8	167·0	196·7	229·8

*Including Iceland.
†Bahrain, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates and Venezuela.
na = not available.

1960s to a peak in 1974 of just over 1 per cent. The recession which began in 1973 brought about a reduction in the ratio to the level of the 1960s, but thereafter there was a recovery to a new high point in 1978 before the most recent recession induced another strong downward movement. Direct investment by the United States has constituted the major portion of total inward investment; until 1977, it had seemed that direct investment by Britain's European Community partners would also play a significant role, but by 1981 this had fallen to a very low level. There was a modest recovery in the Community's inward investment ratio in 1982.

Flows of overseas direct investment have been affected in recent years by exceptional loan arrangements, with parent companies borrowing from their overseas affiliates through transactions on inter-company account. In 1982, however, there was little overall change in the balances on the inter-company account for inward and outward direct investment. It would appear that the trend of parent companies obtaining funds from affiliates has declined, although the borrowings remain outstanding.

Outward Net Direct Investment

Net overseas direct investment by British companies in 1982 amounted to £2,528 million, less than half the figure recorded in 1981 (see Table 1). The reduction, evident in all the main geographical areas and in all the components of net

Table 4

Net Inward Direct Investment in Britain Analysed by Area

£ million

	1978	1979	1980	1981	1982
Western Europe	**410·7**	**454·6**	**189·7**	**375·4**	**345·7**
European Community	290·9	216·1	0·5	27·8	139·1
Belgium and Luxembourg	41·3	23·4	15·1	−170·2	14·5
Denmark	15·1	35·6	13·2	23·7	27·5
France	151·2	12·4	−109·3	14·7	−2·5
Federal Republic of Germany	60·2	70·7	37·5	157·1	56·7
Greece	0·2	0·8	2·0	−0·7	0·1
Irish Republic	22·5	−11·3	19·4	2·3	31·7
Italy	−5·3	5·2	−10·8	14·7	6·2
Netherlands	5·8	79·2	33·5	−13·8	4·9
European Free Trade Association	120·0	237·4	188·8	344·8	203·4
Austria	−2·0	3·4	−1·0	1·2	12·4
Finland	23·9	24·3	3·3	51·6	12·2
Norway	−3·3	15·1	23·8	21·3	117·6
Portugal	0·5	2·0	1·5	—	2·3
Sweden	0·9	39·7	43·2	87·4	9·6
Switzerland	99·9	152·5	118·0	183·4	49·3
Other Western Europe	−0·2	1·2	0·4	2·7	3·2
North America	**846·2**	**1,079·4**	**1,963·3**	**88·0**	**318·9**
Canada	37·3	85·7	50·8	−29·5	−58·5
United States	808·9	993·7	1,912·4	117·5	377·4
Other developed countries	**1·8**	**71·7**	**171·3**	**281·0**	**40·1**
Australia	−7·5	75·2	71·4	−44·7	41·0
Japan	−23·9	50·9	14·0	173·3	−62·7
New Zealand	4·1	4·6	−3·7	12·9	−6·0
South Africa	29·1	−59·1	89·7	139·5	67·7
Rest of the world	**2·4**	**134·4**	**216·5**	**253·6**	**371·3**
Asia	22·8	44·8	24·6	238·7	363·2
Caribbean, Central and South America	−18·0	8·8	202·8	3·4	34·4
Other	−2·4	80·7	−10·9	11·6	−26·3
World	**1,261·1**	**1,740·0**	**2,540·9**	**998·0**	**1,076·1**

direct investment, was particularly pronounced in net acquisitions of share and loan capital: at £1,009 million in 1982 net acquisitions were well under half their value in 1981 and at their lowest level since 1978. This decline was due to significant disinvestment and to a fall in net purchases of share and loan capital. Unremitted profits, totalling £1,661 million, were the principal element of net outward investment, accounting for 66 per cent of the total (the highest proportion since 1977), despite being 18 per cent below their value in 1981.

Although inter-company account balances between British parent companies and their overseas subsidiaries and associates were almost unchanged in 1982, increasing amounts of loan stock issued by overseas subsidiaries of British banks, the proceeds of which were deposited with their parent companies, reduced outward net investment during the period 1979-82, and contributed significantly to the net disinvestment in non-manufacturing activities in Western Europe. Outward direct investment in manufacturing throughout the world, totalling £1,309 million in 1982, exceeded that in non-manufacturing (£1,220 million) for the first time since 1978.

In Western Europe and the developing countries, net outward investment in 1982 was only one-third of its value in 1981. In North America, which accounts for one-third of the book value of British investment abroad, net investment flows were reduced by £1,211 million to £1,556 million, the lowest figure since 1978. Nevertheless, at the end of 1982, Britain was still the largest investing country in the United States with 23 per cent of the book value of foreign-owned non-oil assets and with net direct investment flows accounting for 59 per cent of total British net outward direct investment in that year.

Investment in the developed world represented 87 per cent of total outward investment, compared with 80 per cent in 1981. Britain's partners in the Commonwealth (including both developed and developing countries) accounted for 11 per cent (27 per cent in 1981); the nine other European Community countries for under 2 per cent (the Federal Republic of Germany was the most important market in the Community for

Table 5

Net Earnings from Inward Direct Investment in Britain Analysed by Area

£ million

	1978	1979	1980	1981	1982
Western Europe	**355·2**	**412·1**	**139·1**	**219·0**	**252·0**
European Community	232·4	249·5	62·1	61·9	159·0
Belgium and Luxembourg	55·8	30·8	32·7	38·0	37·9
Denmark	5·8	19·3	15·5	27·6	26·4
France	67·4	60·3	32·8	−28·8	98·4
Federal Republic of Germany	56·6	64·0	19·1	67·2	28·3
Greece	0·9	1·6	1·1	0·4	—
Irish Republic	21·3	20·0	12·2	6·4	2·3
Italy	−6·2	−3·1	−15·5	9·7	−16·4
Netherlands	30·7	56·7	−35·7	−58·6	−17·9
European Free Trade Association	121·2	158·8	73·3	152·5	90·1
Austria	2·9	1·7	0·8	0·9	3·7
Finland	2·9	6·3	4·1	−5·9	2·1
Norway	−6·0	1·0	11·8	4·7	−7·7
Portugal	0·8	2·4	1·0	—	1·5
Sweden	25·5	33·1	21·0	5·0	−1·9
Switzerland	95·0	113·8	34·7	147·8	92·5
Other Western Europe	1·6	3·8	3·7	4·7	2·8
North America	**1,144·1**	**1,527·5**	**1,469·4**	**1,519·7**	**1,387·3**
Canada	116·6	131·7	88·5	87·8	83·9
United States	1,027·5	1,395·8	1,380·9	1,431·9	1,303·4
Other developed countries	**64·4**	**101·5**	**176·3**	**122·7**	**125·4**
Australia	14·7	25·7	52·5	18·5	42·1
Japan	27·2	39·6	91·6	72·5	90·2
New Zealand	2·1	0·4	1·8	3·1	4·2
South Africa	20·4	35·8	30·4	28·6	−11·1
Rest of the world	**−36·9**	**36·2**	**87·8**	**102·5**	**387·7**
Asia	7·2	24·1	31·2	48·3	306·1
Caribbean, Central and South America	−48·8	11·7	54·6	41·5	64·5
Other	4·7	0·4	2·1	12·6	17·1
World	**1,526·7**	**2,077·3**	**1,872·7**	**1,964·0**	**2,152·4**

British investors); and the oil-exporting nations for 7 per cent. Marked shifts to disinvestment by British companies occurred in both the Netherlands and Malaysia (see Table 2).

Net Earnings from Outward Direct Investment

Net earnings from overseas direct investment in 1982 were £3,113 million, 12 per cent lower than in 1981, reflecting reduced industrial activity in the main overseas economies (see Table 1). British parent companies' and head offices' share of the net profits of overseas affiliates was 11 per cent below that of the previous year; the fall in the international value of sterling increased the sterling value of overseas earnings, indicating an even greater underlying decline. Net profits from overseas branches fell by 28 per cent in 1982 to £270 million. Earnings were about evenly divided between manufacturing and non-manufacturing.

The decline in net earnings was strongest in North America, where there was a reduction of 31 per cent in 1982 over the previous year; the fall was less severe in the rest of the developed world, while in the developing nations earnings were little changed. Developed countries accounted for 63 per cent of overseas earnings; Commonwealth countries for 37 per cent; the United States for 17 per cent; South Africa for 13 per cent; Britain's European Community partners for 10 per cent (with the Irish Republic providing the largest share); and the oil-exporting countries for 7 per cent (see Table 3).

Inward Net Direct Investment

Foreign direct investment in Britain recovered slightly in 1982 to reach £1,076 million following the sharp fall in 1981 caused by the granting of loans to United States parent companies by their British affiliates. The increase in 1982 was entirely due to a doubling of inward investment in banking, which was partly offset by a reduction in investment in other activities.

Unremitted profits, at £760 million, made up 71 per cent of net direct investment, the highest proportion for a decade; investors in Western Europe and North America increased their unremitted profits while those in other areas reduced

theirs. The value of net acquisitions of share and loan capital was £309 million in 1982, £584 million less than in 1981. Indebtedness to overseas parent companies decreased in manufacturing by £282 million, but this was just offset by an increase in indebtedness in non-manufacturing. As in 1981, inward direct investment was predominantly in non-manufacturing activities during 1982; overseas companies' direct investment in British manufacturing, at £146 million, was at its lowest level for 15 years.

The United States remains by far the largest single foreign direct investor in Britain, contributing 35 per cent of the total flows of inward direct investment in 1982. Western European countries accounted for 32 per cent (Norway provided about one-third of the Western European total); Britain's fellow members of the European Community for 13 per cent (compared with 3 per cent in 1981) with investments from the Federal Republic of Germany making up two-fifths of this total. Japan's net direct investment in 1981 of £173 million was followed by net disinvestment of £63 million in 1982 (see Table 4).

Net Earnings from Inward Direct Investment

Net earnings by other countries from inward investment in Britain were 10 per cent higher in 1982 than in 1981 at £2,152 million (see Table 1). Overseas parent companies' share of the net profits of British firms rose by 21 per cent to £1,607 million and, after taking into account interest paid to overseas parent companies, their net earnings were 13 per cent higher than in the previous year at £1,716 million. However, these increases were entirely the result of extraordinary items being taken through the profit and loss accounts. Earnings by branches of overseas companies (£436 million in 1982) remained at virtually the same level as in 1981. Net earnings in non-manufacturing activities (£1,245 million) were higher than those from manufacturing (£908 million), in spite of the fact that three-quarters of the book value of inward investment was in manufacturing.

The United States was the largest overseas earner in Britain in 1982, taking 61 per cent of total income from net inward direct investment, followed by France (5 per cent), which greatly improved its earnings (£98 million in 1982 compared with a loss of £29 million in the previous year), Switzerland (4 per cent) and Japan (4 per cent). The net earnings of Japanese direct investors recovered to about their 1980 level; in line with normal Japanese practice, earnings were remitted to parent companies in Japan. In all, developed countries accounted for 82 per cent of income from total inward investments with the European Community countries taking 7 per cent of total earnings (see Table 5).

Leasing

Competition within the equipment leasing industry is likely to become more intense as a result of the implementation of measures announced in the Budget in March of this year, according to the Governor of the Bank of England, Mr Robin Leigh-Pemberton. He regards it as essential, however, that greater competition does not lead to a lowering of standards in the industry, as leasing could play a significant part in financing higher levels of productive investment so crucial to sustained economic recovery.

Mr Leigh-Pemberton was speaking about the probable effects of Budget changes in corporate taxation (see pp 121-2) on British business, with particular reference to the equipment leasing industry, at the annual dinner of the Equipment Leasing Association on 16 May.

Impact of Changes in Company Taxation on Company Finances and Investment

The object of the last Budget had been to stimulate efficiency, enterprise and employment through means such as the lowering of corporation tax and the removal of the artificial inducement to investment which had resulted from high rates of capital allowances. The containment of inflation at a moderate level and the recent improvement in company finances had, in any case, reduced the need for large allowances. The proposed abolition of first-year capital allowances in 1986 that would follow a phased reduction in the allowances over the next two years did not discriminate – rightly – against the leasing industry, which had brought benefits to industry, especially during the difficult years of the recent recession when many firms had been unable to obtain the immediate benefit of tax allowances on new plant.

The planned capital allowances would still be, on average, more generous than depreciation at normal commercial rates for most assets; and, with current rates of inflation, they would not be dissimilar to replacement cost depreciation. The Budget changes would, of course, lead to some reduction in the implicit fiscal subsidy to investment, but this would limit the extent to which investment decisions were based on future tax assessments rather than on future market assessments. Overall, the corporate taxation changes announced in the Budget, when fully implemented, would provide an environment more conducive to the longer-term development and health of industry than the present one. There would be encouragement to enterprise arising from the imposition of a lower tax rate on corporate profits than was applied in any other major competitor country.

Investment spending was, at last, growing (along with consumer spending), albeit from a low base with manufacturing investment in 1983 having been almost 40 per cent below its 1979 level. Industrial profitability had also recovered substantially – helped by some excellent gains in productivity – but the prosperity of industry in the long term was bound up with the growth of productive investment of all kinds. The erosion of productive capacity during the recession needed to be reversed through an increase in capital investment to secure sustained growth. There were signs at the end of last year that some

improvement in the rate of investment was at hand. A high level of profitable investment was essential if British companies were to compete successfully with overseas rivals; the recession had, unfortunately, tended to make companies too cautious when taking investment decisions. Above all, investment had to be increased in the development and production of technologically-advanced goods which were competitive on price, quality and reliability.

Some stimulus to capital spending would be supplied by the financial incentive to bring forward investment plans created by the early announcement of the planned reductions in corporation tax and in first-year capital allowances and Mr Leigh-Pemberton was hopeful that investment expenditure would rise as a result of these and other positive government measures.

Impact on the Leasing Industry

Fiscal changes were not the only important influence on the level of demand for leasing finance: with greater economic growth and availability of liquid assets, more and more companies would become less reliant on leasing finance. Nevertheless, it was probable that leasing would continue to play a significant role in financing investment as the economy moved towards full recovery. During the last few years the leasing industry had made a notable contribution to sustaining industrial investment; in 1983, about 12 per cent of total new investment was financed by leasing. (The growth in leasing finance over the past 13 years reflected in part the particular taxation system in force during that period and also the low levels of profitability in the corporate sector.)

The leasing industry was likely to offer attractive rates in the current year for productive investment. In the less immediate future, the Budget changes in the levels of capital allowances would in all probability mean that lessors would wish to finance a larger amount of investment, as a result of the lower allowances, but there would be insufficient demand for such finance, bringing about greater competition within the industry as well as encouraging more innovation and sophistication in the structuring and marketing of leases. Lessors must, however, continue to maintain high standards. Price competition would almost certainly develop quickly – leasing margins appeared already to have started to fall – and care would be needed to ensure that standards were not compromised nor business taken on at too fine a margin in response to greater competitive pressures.

Leasing had traditionally offered a number of advantages not necessarily associated with taxation: it was an additional source of finance as well as being similar in nature to a term loan. It was to be hoped that the industry would go on offering fixed-interest rate terms for a sizeable proportion of assets. Leasing could also provide a degree of flexibility not always available with other forms of finance. In future, in order to satisfy customer needs, lessors would have to offer not only the right price but also service and advice of a high standard so as to attract business in a sector no longer constrained by the volume of supply. The Governor welcomed the setting-up of a code of practice by the Equipment Leasing Association, so essential in view of the changes facing the industry.

Concluding, Mr Leigh-Pemberton said that the leasing industry had developed considerable sophistication and expertise in the last few years which would assist it in coping with a modified working environment. The industry would carry on promoting both leasing and other sources of finance on advantageous terms for industrial and commercial companies while maintaining its tradition of innovation, and make an important contribution to economic recovery and long-term prosperity.

Industrial Disputes: International Comparisons

Britain has maintained its middle-ranking position in an international comparison of industrial disputes during 1982.

The latest comparisons[1] of industrial disputes statistics show that in 1982 Britain continued to hold a broadly middle-ranking position. Of the 14 countries for which statistics are available for 1982 in a Department of Employment international comparison, six lost more working days per thousand employees than Britain (see Table 1). In five- and ten-year comparisons Britain's position was roughly similar.

Over the five-year period 1978-82 Britain lost on average a little over half of one working day per employee per year as a result of industrial disputes (532 days per thousand employees). This figure was affected by the particularly high level in 1979 when a few large stoppages, especially involving engineering workers, brought the total number of working days lost up to 1,276 per thousand employees, compared with an average of 346 in the four other years and 365 in the five years 1973-77. Even so, Italy, the Irish Republic, Spain and Canada all experienced substantially higher incidence rates of working days lost due to industrial disputes than Britain over 1978-82.

Disputes in Selected Industries

The International Labour Office (ILO) has produced a similar comparison (Table 2) for the same countries, but restricted to the four broad sectors of industry which tend to account for a large proportion of the working days lost in all countries – that is, mining, manufacturing, construction, and transport and communications. This comparison is preferred by the ILO because it partially reduces the effect of differences in the industrial base between the various countries. However, because of the absence of the required data on employment by industry for recent years in many countries, the table is not as up to date as Table 1.

The relative differences between countries and the ranking orders are mostly similar on either

[1] *Employment Gazette*, March 1984, Vol 92, No 3, pp 101-3.

Table 1

Working days lost through industrial disputes per 1,000 employees in all industries and services: 1973-82

	1982	Average† 1973-77	1978-82	1973-82
Britain	250*	365	532*	448*
Australia	340	729	509	619
Belgium	*na*	233	(197)	(219)
Canada	548	981	740	860
Denmark	45	476	120	298
Finland	91	771	258	514
France	133	232	130	181
Germany (Federal Republic)	1	19	28	24
Irish Republic	511	601	803	702
Italy	1,108	1,425	969	1,197
Japan	13	148	23	85
Netherlands	50	15	29	22
New Zealand	259	258	269	264
Norway	144	70	51	61
Portugal	*na*	*na*	(155)‡	*na*
Spain	255*	775	766*	770*
Sweden	—	31	220	126
United States	*na*	459	(334)	(404)
European Community (excluding Greece)	*na*	(381)	(426)	(404)

na Not available. *Provisional.
†Annual average for those years within each period for which data are available, not weighted for employment. Brackets indicate incomplete data.
‡Includes only 85 per cent of strikes in 1981.

Table 2

Working days lost through industrial disputes per 1,000 employees in selected industries (mining, manufacturing, construction and transport and communications): 1973-82

	1981	1982*	Average 1973-77	1978-82*	1973-82*
Britain	330	470	700	1,040	870
Australia†	1,500	790	1,430	1,150	1,290
Belgium	*na*	*na*	440	(390)	(420)
Canada	1,880	1,420	2,080	1,680	1,880
Denmark	650	*na*	1,070	(260)	(710)
Finland	580	230	1,390	510	950
France	160	260	330	230	280
Germany (Federal Republic)	10	—	30	80	60
Irish Republic	*na*	*na*	850	*na*	*na*
Italy‡	950	1,920	1,970	1,580	1,780
Japan	20	20	250	40	150
Netherlands	20	70	100	60	80
New Zealand	520	*na*	630	(770)	(690)
Norway	40	390	120	130	130
Portugal	440	*na*	*na*	(360)	*na*
Spain	*na*	*na*	1,370	*na*	*na*
Sweden	60	—	20	440	230
United States¶	670	*na*	1,100	(880)	(1,010)

na Not available.
*Provisional.
†Including electricity and gas, excluding communications.
‡Including gas, electricity and water. Including political strikes from 1975 onwards.
¶Including gas, electricity and water.
Brackets indicate incomplete data.

basis of comparison. In general, the incidence of working days lost was about twice as high in the selected industries as in all industries and services taken together, with Italy, Canada and Australia recording the highest incidences of days lost.

Coverage and Comparability

While many similarities exist between countries in their methods of data collection, there are also numerous differences. There are also differences in the criteria used for inclusion of disputes in the statistics – for example, the extent to which small disputes and political strikes are excluded, and whether workers indirectly involved in disputes are included.

In interpreting the statistics, *Employment Gazette* suggests that it is significant that total strike figures tend to be dominated by a relatively small number of disputes with a minority of employers. In Britain the majority of firms do not experience industrial disputes to any significant extent. The figures should not be taken as precise or general indicators of industrial relations in the various countries; variations in strike-proneness between firms and plants in most countries are likely to be far greater than aggregate international differences.

Shorter Notes

LOAN GUARANTEE SCHEME

The Parliamentary Under-Secretary of State for Industry, Mr David Trippier, announced on 23 May the introduction of a new Loan Guarantee Scheme from 1 June that would run until 31 December 1984. The existing pilot Loan Guarantee Scheme (see p 103, 1981 and p 133, 1983) would close for applications after 31 May and no applications reaching the Department of Trade and Industry after that date would be considered under the present arrangements. The new scheme would operate on similar lines to the previous one, but there would be important changes to reduce the public expenditure cost and to ensure that potential beneficiaries of the scheme were more closely defined. The Government would provide guarantees covering 70 per cent of loans by participating banks and institutions. A premium would be charged at an annual rate of 5 per cent on the reducing balance of the amount guaranteed (thereby placing a cost of 3·5 per cent on the loans in addition to the interest charged by the bank). Mr Trippier said that discussions would continue with the participating banks and others on ways of securing further savings, and he intended to make a further announcement about the future of the scheme before the end of the year.

Source: Department of Trade and Industry press notice, 23.5.84.

BL CORPORATE PLAN

The corporate plan of BL, setting out the basis on which the company's progress towards viability and its return to the private sector would be maintained, has been approved by the Government. In a statement made to the House of Commons on 22 May, the Secretary of State for Trade and Industry, Mr Norman Tebbit, said that BL's published results showed that in 1983 the company achieved its objective of breaking even at the trading level for the first time since 1978. Productivity and quality standards had continued to improve markedly.

The company had achieved great success with its range of new models launched over the past year, including the larger Sherpa vans, the Land Rover 110, the Maestro, and most recently the Montego. A particular problem for the company in this year's plan had, however, been Leyland Trucks, which faced exceptionally depressed home and overseas markets, with little sign of improvement in the medium-term. The Government had endorsed the company's plan to continue the Leyland Trucks business, but accepted the need for radical action, including plant closures, to reduce costs and adjust to the medium-term prospects for the market. The Government, like the company, greatly regretted these measures, which were, however, necessary to establish a viable prospect for the remainder of the commercial vehicles business and the employment in it.

Mr Tebbit said it had been the long-established objective of the BL board to return its businesses to the private sector, and he pointed out the sustained improvement in recent years in the performance of Jaguar Cars. As a result, the BL board was now able to propose as a first step, subject to the approval of the shareholders of BL plc, that Jaguar Cars should be returned to the private sector later this year, and it was the board's intention to proceed by means of a public offer for sale of Jaguar Cars.

Source: *Hansard*, Vol 60, No 160, col 830.

WOMEN AND EMPLOYMENT

A major government survey into women and employment, carried out by the Office of Population Censuses and Surveys and the Department of Employment, was published on 30 May. The survey looked at why women did or did not work, what sort of jobs they did and the role of paid work in women's lives. A nationally representative sample of 5,500 women of working age and nearly 800 of their husbands was interviewed for the survey in 1980.

Ten million women are now economically active – 40 per cent of the labour force. Most women still saw their jobs as secondary to their families, although the money they earned was an increasingly important element of the household income. Most enjoyed working and only 6 per cent wished that they did not have to work. The majority of those who were married still felt that a home and

children were a woman's real aim and her main job, although those who were younger and better educated had less traditional views.

Two-thirds of the women interviewed were working or looking for work. The majority of the rest were mothers of young children who planned to return to work eventually. Of the working women, 44 per cent were part-time, mainly mothers with young children. Marital status had no effect on whether women worked or not, though married women were more likely to work part-time. The age of the youngest child was the single most important factor affecting whether women worked. A substantial proportion of women who did not have a job and were looking for work were not registered as unemployed; conversely, one-fifth of all registered unemployed women were not seeking work.

The jobs that most women did remained very different from those done by men. Women workers were concentrated in a few occupations and, in particular, in the service sector of the economy. Two-thirds were in jobs done only by women, and eight out of ten husbands were in jobs done only by men. In the large majority of cases husbands were still the primary contributors to household income; only 15 per cent of working wives had hourly earnings the same as or higher than their husbands, and similarly only 15 per cent of working wives worked the same or longer hours. Women worked part-time to fit in with their family and domestic demands; there was a great diversity of part-time hours, but the majority of part-timers worked during school hours. Women working full-time in white-collar jobs which were also done by men had much better pay, conditions and employment prospects than most other working women.

The survey found no evidence for the belief that women tended to change jobs frequently for domestic reasons, or were unstable employees. Apart from deciding to stop work to have their first child, the majority of women left their employers for reasons to do with the job itself, particularly to go to a better job. Older women were found to be especially likely to stay in the same job for long periods.

Source: *Women and Employment: A Lifetime Perspective* by Jean Martin and Ceridwen Roberts. HMSO, £9·50. ISBN 0 11 691090 9.

CHANNEL TUNNEL

The Anglo-French Banking Group's report on finance for a fixed cross-Channel link, which has been submitted to the British and French transport ministers, has concluded that only a twin-bored rail tunnel with a vehicle shuttle service would be likely to attract adequate private financing.[1] The Group, which includes the National Westminster and Midland banks, had offered to examine the possibility of a link being financed by the private sector following the report of a British-French study group in 1982 which had said that a fixed link could be economically advantageous and had favoured a twin-bored rail tunnel providing through-rail services and a vehicle shuttle of wagons carrying private cars and commercial vehicles (see p 252, 1982).

On 22 May, the Secretary of State for Transport, Mr Nicholas Ridley, told the House of Commons that the Government would need time to study the report and assess wider reactions before reaching conclusions and having substantive discussions with the French Government. The first part of the report concluded that, of the various types of scheme proposed (bridges, tunnels and combined schemes), 'only a twin-bored rail tunnel with a vehicle shuttle service would be likely to attract adequate private financing'. Two possible financing methods were analysed in the second part, but the report did not make a precise proposal on the best way to proceed. However, both methods would require some government commercial guarantees. 'It has been and remains the Government's firm position that any project would have to be financed entirely without the assistance of public funds and without commercial guarantees by the Government.' The Government had not yet seen a proposal which demonstrated that this condition could be met. 'Nevertheless, the Government remains willing to consider facilitating a fixed link, in collaboration with the French Government, provided that the necessary financial, technical and other aspects are satisfactorily dealt with.' Before there could be any question of a firm commitment by the Government to facilitate the project, any scheme would also need to be supported by evidence that sufficient funds would be available to ensure completion; that proper account had been taken of maritime and structural safety requirements; and that attention had been given to the implications for road and rail capacity. The Government would now allow time for prospective promoters to consider the report and assess whether they could secure the finance necessary for a scheme to proceed without financial support from the Government.

Sources: *Hansard*, Vol 60, No 160, written answers, cols 380-1; Department of Transport press notice, 22.5.84.

[1] *Finance for a Fixed Channel Link*. National Westminster Bank/Midland Bank. Available from Channel Link, c/o Development Projects Section, Level 32, National Westminster Bank, National Westminster Tower, 25 Old Broad Street, London EC2N 1HQ. £125.

DEVELOPMENTS AT BIRMINGHAM AIRPORT

Recent developments at Birmingham Airport include a new £62 million terminal complex, which became fully operational in April 1984, and the world's first regular public transport system operated by magnetic levitation (expected to be providing a full service in the near future). The new terminal, officially opened by the Queen on 30 May, is designed to handle up to 3 million passengers and 33,000 commercial aircraft move-

ments a year by 1990, five times the passenger-handling capacity of the old terminal. There are 20 stands for aircraft on international services, eight of which are designed to handle wide-bodied jets. Work on the first phase of a new cargo terminal will start shortly and the terminal, which should be completed by mid-1985, will contain the most modern stock control and racking systems and will cover 6,000 sq ft (557 sq metres).

An important feature of the new airport is the 'maglev' (magnetic levitation) link running 620 metres (2,030 ft) between the airport and Birmingham International railway station, which is adjacent to the National Exhibition Centre. Several of the world's airports (including Gatwick) have similar 'people-mover' systems, but this is the first to use magnetic levitation. Electromagnets are fitted to each vehicle and, when the power is switched on, the vehicle is lifted by magnetic attraction above the guideway of steel support rails. The vehicle is propelled by a linear induction motor, and has a computer for automatic operation, removing the need for a driver. Each vehicle can carry 40 passengers and trains are made up of two cars, operating on parallel tracks, taking 90 seconds for the journey. The vehicles are lightweight, weighing less than 5 tonnes, and are of a glass fibre body mounted on an aluminium chassis. Maglev was developed by the West Midlands County Council, British Rail and a private sector consortium called the People Mover Group (including the firms of Balfour Beatty, Brush Electrical Machines, GEC and Metro-Cammell).

INFORMATION TECHNOLOGY

The approval of two more large-scale demonstrator projects, submitted by Racal and by GEC Electrical Projects, in the Alvey Programme for advanced information technology was announced on 5 June by the Minister for Information Technology, Mr Kenneth Baker. The first large-scale project was approved for a consortium led by ICL in April 1984 (see p182), while the Department of Trade and Industry also intends to support a project submitted by Plessey. The cost of the four projects will be £35 million over a period of five years, with 50 per cent of the industrial costs and all the university costs being funded by the Alvey Directorate in the Department, the remaining costs being borne by the industrial partners. Mr Baker said that the four projects were designed to demonstrate what could be achieved with the new technologies. It was particularly significant that all were dependent on developments in knowledge-based systems, which showed how important this technology would be in the future. The demonstrators would act as a focus for the research supported by the programme, and the involvement of users was especially important and should lead to early exploitation of the results.

Racal's project is intended to produce a range of 'highly intelligent' mobile terminals which would be used to provide instant route guidance and traffic information for motorists, a fault diagnosis system for the electricity supply industry, and a mobile electronic office. They would be developed with the help of systems linked to databases by radio and exploiting the new cellular radio service being introduced by Racal in 1985 (see p 39, 1983). The consortium for this project is led by Racal Research Ltd and includes a team of five Racal companies, Acorn Computers, BL Technology, the Royal Automobile Club, the Electricity Council, the Transport and Road Research Laboratory, the universities of Surrey, Loughborough, Sussex and Cambridge, and the Open University.

GEC's project is planned to demonstrate the automation of the entire production process from design to manufacture and then to maintenance. It represents the next generation of computer-integrated manufacturing and will be applied initially to a new product being designed by Lucas CAV, although the techniques will be suitable for many different types of product. Apart from these companies, the consortium includes the Marconi Research Centre, Marconi Avionics, the National Engineering Laboratory, and the universities of Edinburgh, Leeds and Loughborough.

Plessey's project for a speech-input word processor and workstation involves significant developments on practical speech recognition to allow a computer to process speech directly. Other members of the consortium are Shell, the universities of Edinburgh and Loughborough, and Imperial College, London.

Source: Department of Trade and Industry press notice, 5.6.84.

DESIGN POLICY

The Government has set three broad objectives for its policy on design: the promotion of increased awareness in industry and commerce of the benefits of good design; the encouragement of greater consciousness of good design by customers; and the reinforcement of the importance of design education and training at all levels. These objectives are outlined in a new document entitled *Design for design: a framework for action*, which was launched by the Parliamentary Under-Secretary of State for Industry, Mr John Butcher, on 10 May.

The strategy elaborated in the paper is a continuation of that initiated by last year's Design for Profit campaign (see p 76, 1983) to stimulate good design in British industry on a co-ordinated and long-term basis (nearly 1,500 industrial managers attended campaign conferences all over the country). It provides a coherent framework within which all those with an interest in design can work together to achieve real progress. To help to attain its objectives, the Government has asked for a strategy group to be created, based in the Design Council; the group will supply the Government with advice on priorities demanding intensive attack and on the means of measuring success in meeting targets, and will be free to raise topics that it considers should receive particular atten-

tion. It is hoped that other professional and national bodies concerned with design will contribute to the success of the new strategy; the Government is prepared to finance an annual design conference to facilitate a greater exchange of views, necessary to identify common aims and matters requiring urgent action, between these groups.

The strategy group will consider a number of topics falling within the three objectives. These include: development of the Design Advisory Service Funded Consultancy Scheme (see p 211, 1982); development and support of design management education; development of a national product approval scheme; and encouragement of public purchasing agencies to work to preferred buying lists. In the area of design education, a number of issues, such as curriculum research and development, teaching staff development and industrial training for students and graduates, justify urgent consideration.

The Government is taking certain measures in line with the proposals in the document. It intends to provide £10 million during the next three years for the continuation of the Funded Consultancy Scheme (under which more than 1,400 firms have already requested assistance); £50,000 over the next two years to support research into design and primary school education; a further £10,000 in the next two years to support the Design Management Unit at the London Business School; and £30,000 to help to launch a register of apparel designers. Various other measures are also under discussion. The Government's quality campaign, launched in 1983 (see p 173, 1983), is also helping to reinforce the significance of good design and to emphasise the essential role of quality assurance and standards (see p 27) and of quality management systems which point to the critical importance of good design. In recognition of the need for better co-ordination within government, the Department of Trade and Industry is to strengthen its links with other government departments and agencies which have an interest in design.

Source: *Design for design: a framework for action*. Available free from the Department of Trade and Industry, QE3 Division, Ashdown House, 123 Victoria Street, London, SW1H 6RB.

SOCIAL AND CULTURAL AFFAIRS

Shorter Notes

NEW FRAMEWORK FOR SCHOOL GOVERNING BODIES

Proposals for a new framework for school government in England and Wales are set out in a consultative document published on 23 May. In the interests of raising standards, these proposals would give parents the right to elect, from among themselves, the majority on the governing bodies of county and maintained special schools, and would provide for an increase in parents' representation on governing bodies of voluntary controlled schools.[1] Each governing body would have appropriate functions in relation to the life of its school, while respecting the responsibilities of the local education authority for school provision and the professional responsibilities of the headteachers. The proposals cover 20,000 county schools and maintained special schools, and the 3,500 voluntary controlled schools, in England and Wales; in general they do not affect the position of the 4,750 voluntary-aided schools.

The document argues that parents are not now able to contribute to the development of their children at school as fully and as directly as they would wish and that most governing bodies do not adequately serve the aim of promoting the school as a force for good in the life of the pupils, their families and the community which it serves. It states that the Government now intends to extend its policies for raising standards by enabling parents to improve the work of the schools. The proposals complement the Government's policies for the school curriculum, examinations and teaching quality (see p 32), and they build on what has already been achieved by local education authorities and teachers in raising standards. The proposed changes would help local education authorities, teachers and parents to work together in the most fruitful and effective way.

In a statement to the House of Commons on 25 May, the Secretary of State for Education and Science, Sir Keith Joseph, said that the governing bodies, thus reconstituted, would be assured of a powerful voice in the affairs of maintained schools. It was planned to redefine the allocation of certain responsibilities for the curriculum and conduct of the school, the appointment and dismissal of staff, the management of its finances and the use of its premises. The proposals were deliberately designed to leave untouched the duty of each local education authority to secure the provision of sufficient and efficient schools for its area, and preserve those powers which it needed to discharge that duty. It would continue to be responsible for the character and pattern of the school system; for formulating a curricular policy for its schools in the light of national policies and local needs; for employing the teachers and other staff and for managing them in the interest of all its schools; and for providing the necessary resources and deploying them effectively. The proposals protected the professional freedom of teachers, and in particular gave a more secure foundation to the authority of the headteacher to manage the professional business of the school. They sought to strengthen the dual system of county and voluntary schools and to offer diversity and choice to parents. The present arrangements for the composition of the governing bodies of voluntary-aided schools would remain unchanged, while those features of the system which gave these schools a substantial measure of independence would be maintained.

The proposals had been put forward for consultation and legislation would be introduced as soon as a suitable opportunity arose.

[1]County schools and maintained special schools for children with special educational needs are provided and funded by local education authorities. Voluntary schools, mainly established by religious denominations, are also maintained from public funds, but the governors of voluntary-aided schools contribute to costs. In the voluntary schools two-thirds of the governors are appointed by the voluntary interests.

Sources: *Parental Influence at School: A New Framework for School Government in England and Wales*. Cmnd 9242. HMSO, £3·75. ISBN 0 10 192420 8. *Hansard*, Vol 60, No 161, written answers, cols 487-8; Vol 60, No 162, cols 1381-5; Department of Education and Science press notice, 23.5.84.

NEW BUSINESS SPONSORSHIP SCHEME FOR THE ARTS

The Minister for the Arts, Lord Gowrie, has announced the launch of a government scheme intended to encourage a higher level of business sponsorship of the arts and to give public endorsement to sponsors in Great Britain. The Business Sponsorship Incentive Scheme, worth £500,000 in the first half year and £1 million annually after

that, will provide matching grants for new sponsorships. Grants to arts bodies of up to 25 per cent of the estimated project value will be available to match business sponsorship for projects costing £10,000 to £100,000.

Lord Gowrie said that while business sponsorship was already running at an encouraging level of £13·5 million a year, he believed that many companies had not yet considered the opportunities which it offered. The Government was showing its commitment to the field of sponsorship by making available an additional £1 million in a full year to provide an incentive to new business sponsorship through challenge grants. Lord Gowrie said that he did not regard sponsorship as a substitute for public subsidy, but as a supplement to enable the arts to grow. It was not a charity but a business relationship from which both parties benefited.

The new scheme, which will start on 1 October, will be administered by the Association of Business Sponsorship of the Arts. It will be open to any business creating new or additional sponsorship for professional arts bodies including craft and film. The sponsored projects will include new revenue projects (such as new works, productions, exhibitions and tours), new building, improvements or refurbishments to existing buildings, and acquisition of new or improved equipment. No organisation will be eligible for an award more frequently than once every three years. Applications may be initiated by either business or the arts, the money being paid to the arts organisations in all cases.

The government initiative has been welcomed by the Arts Council of Great Britain, which referred to the importance of business sponsorship in its recent report on a strategy for the arts for the coming decade (see pp 144-5).

Source: Office of Arts and Libraries press notice, 11.5.84.

DOCUMENTATION

Government and Administration

Criminal Justice: A Working Paper (see p 195). Home Office, HMSO. Available on application to the Home Office, Room 1001, 50 Queen Anne's Gate, London SW1H 9AT. ISBN 0 86252 148 3.

External Affairs and Defence

Statement on the Defence Estimates 1984.
Vol 1. Cmnd 9227-I. HMSO, £4. ISBN 0 10 192270 1.
Vol 2 (Defence Statistics.) Cmnd 9227-II. HMSO, £4·50. ISBN 0 10 192271 X.

Commonwealth Development Corporation. Report and Accounts 1983 (see p 213). HMSO, £4·50. ISBN 0 903799 16 2.

The Evaluation of Aid Projects and Programmes. ODA/HMSO, £5·95. ISBN 0 11 580243 6.

The British Council. COI, No 237/84.

Economic and Scientific Affairs

Monthly Digest of Statistics. Supplement. Definitions and Explanatory Notes. 1984 Edition. HMSO, £2·75. ISBN 0 11 620132 0.

Britain's Public Expenditure Plans 1984-87. COI, No 240/84.

Bank of England. Report and Accounts for the year ended 29 February 1984. Available free from the Bank of England, Threadneedle Street, London EC2R 8AH.

Protocol to the Agreement on the Importation of Educational, Scientific and Cultural Materials. United Nations . . . 1 March 1977. (The United Kingdom instrument of ratification was deposited on 9 June 1982 and the Protocol entered into force . . . on 9 December 1982.) Presented to Parliament . . . May 1984. Cmnd 9217. HMSO, £2·25. ISBN 0 10 192170 5.

Women and Employment: A Lifetime Perspective by Jean Martin and Ceridwen Roberts (see p 232). HMSO, £9·50. ISBN 0 11 691090 9.

Annual Report of the Certification Officer 1983. Available free from the Certification Office for Trade Unions and Employers' Associations, 15-17 Ormond Yard, Duke of York Street, London SW1Y 6JT.

The Control of Major Hazards. Third Report of the Health and Safety Commission's Advisory Committee on Major Hazards. HMSO, £5. ISBN 0 11 883753 2.

Food and Packaging Health and Safety 1977-82. HMSO, £5·20. ISBN 0 11 883722 2.

Wool Textiles: Health and Safety 1977-82. HMSO, £3·20. ISBN 0 11 883748 6.

Royal International Agricultural Show. COI, No 51/84.

The Repair and Compensation System for Coal Subsidence Damage. Report of the Subsidence Compensation Review Committee. Department of Energy. HMSO, £5·65. ISBN 0 11 411384 X.

Combined Heat and Power District Heating Feasibility Programme: Stage 1. Summary Report and Recommendations. Energy Paper Number 53. Department of Energy. HMSO, £19·50. ISBN 0 11 411385 8.

The Work of the NRPB 1981-83. National Radiological Protection Board. Available from HMSO, £4·50. ISBN 0 85951 229 0.

Finance for a Fixed Channel Link (see p 233). National Westminster Bank/Midland Bank. Available from Channel Link, c/o Development Projects Section, Level 32, National Westminster Bank, National Westminster Tower, 25 Old Broad Street, London EC2N 1HQ. £125.

Bands I and III. A Consultative Document. Discusses a number of major issues on the future of the radio frequencies known as Band I (41-68 megahertz) and Band III (174-225 megahertz) which will no longer be used for 405-line black

and white television services from the end of 1984. These frequencies will become available for land mobile radio services which have been restricted by the shortage of suitable radio spectrum. This is expected to lead to a substantial increase in the use of mobile radio and create new jobs in manufacturing and service industries. Cmnd 9241. Department of Trade and Industry. HMSO, £4·15. ISBN 0 10 192410 0.

Design for design: a framework for action (see p 234). Available free from the Department of Trade and Industry, QE3 Division, Ashdown House, 123 Victoria Street, London SW1H 6RB.

Patents, Designs and Trade Marks 1983. The 101st report of the Comptroller-General of Patents, Designs and Trade Marks. HMSO, £5·90. ISBN 0 10 241284 7.

Social and Cultural Affairs

Improved transferability for early leavers from occupational pension schemes. A Department of Health and Social Security consultative paper setting out proposals for legislation to give early leavers from occupational pension schemes the right to take with them pension rights they have built up in that scheme. Available free from Room 419, Friars House DHSS, 157-168 Blackfriars Road, London SE1 8EU.

Department of Health and Social Security Statistical Bulletin No 1/84: Hospital Activity Statistics for England 1972-82. The first of a set of statistical bulletins on important health topics. Available from DHSS Information Division, Government Buildings, Honeypot Lane, Stanmore, Middlesex HA7 1AY.

Parental Influence at School: A New Framework for School Government in England and Wales (see p 236). Cmnd 9242. HMSO, £3·75. ISBN 0 10 192420 8.

Help for Disabled People in Britain. COI, No 96/84.

University Grants Committee. Annual Survey – Academic Year 1982-83. Cmnd 9234. HMSO, £4·50. ISBN 0 10 192340 6.

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